The Illinois Funds RFP for Custodial Services – Bidder's Conference Q and A

Can the RFP be released as a MS Word file? **Yes – A copy has been sent to each institution.**

Would it be possible to have CD-ROMs or diskettes at the bidder's conference with the RFP documents on them or have the same emailed right away? **Copy has been sent.**

Can the State explain in detail the plans with the existing custodian for transition of files, database information, account data, and any and all other relevant data or information to facilitate a seamless transition to another provider? **The existing Custodial contract with the Treasurers Office requires the Custodian to work with the Treasurer and successors to ensure a successful transition should upon the conclusion of the contract. We do not have details for the transition at this time.**

The RFP does not mention any activity caps on normal services such as check-writing whereby the custodian can begin to capture additional fees above that established threshold. The current Custodian is capturing these types of charges for the participants today. Will these thresholds be provided to each potential vendor for custodian services? **The current custodian charges a fee to participants who write more than 1,000 checks per month for 3 consecutive months, they are charged for checks over 1,000 from this point on. Participants are charged for Direct Deposit of payroll, $11 per file and $0.11 per item, but as stated in the Bidder's conference we expect this charge to be reduced. Fees were also charged for Online Banking, Account Reconciliation, ACH block, ZBA maintenance, foreign drafts and large volumes of deposits. We will analyze all proposed fees along with the proposed basis point fee.**

What specific services are always provided free and which ones are able to be charged for? **As stated we do not want the participants to lose any services they currently have, free wires, Ach's, check writing, check stock, stop pays, transfers, just to mention a few. If fees are proposed, they will be added to the proposed basis point fee.**

Can the Treasurer provide specific details relating to how and when the custodian can send analysis statements to the participants? **The custodian cannot send statements to the participants that are not directly addressed in this RFP, only those which may be approved by the Treasurer.**

Is the State open to outsourcing the participant record-keeping and customer service to a third party provider? **Would not be the ideal situation but present you plan and we will consider it.**

What is the total basis point fee charged for all services rendered the Illinois Funds? Investment Management? **Zero** Custody? **Currently Floating based upon Asset Base** Administration? **6 basis points for the Treasurer's Office administration**

Regarding Securities Lending, have the Illinois Funds portfolios been analyzed for suitability considering the lending restrictions required for the S&P AAA rating? **No** If so, what was the estimated total income anticipated from the program? **The purpose of the proposal is to determine this.**

What is the total asset value of the "Participant Custodial Accounts" held by the current custodian? **$726 Million as of 5/30.** What percent of the accounts do you feel might move to the new Illinois Funds custodian if one is selected? **Unknown** Will the current "Participant Custodial Accounts" be exempt from the non-solicitation clause? **No**

What system is currently utilized to account for the Illinois Funds' shareholder balances? **Hogan**
What is the preferred amount of shareholder transaction history to be moved to a new account custodian**? Transaction history from January 1, 2006 through current**

Of all the services provided by your current custodian, which would you like to avoid losing or downgrading, which do you feel could be improved, and what additional services would you like to see added? **The service level to the participant will not be diminished from their current levels and any improvement will be viewed appropriately. As to additional services other than those listed in the RFP the Treasurer would expect proposes to include additional services in the proposal.**

Would the Treasurer be willing to accept a bid including investment management services? Such a bid could reduce the overall cost to the fund. **The RFP in section 33 states that investment advice is not the obligation of the custodian.**

Introduction, Section 1.0 – The fifth paragraph describes the E-Pay component of Illinois Funds. It states that "the custodian shall maintain a contract with a firm responsible for updating and maintaining the E-Pay website". Is the vendor responsible for finding a firm for the service described or is the selected custodian expected to enter a contract with a firm already identified by the Treasurer's Office? **The selected custodian would be expected to enter into a contract with the firm already identified.**

Accounts-Prime Fund and Money Market Fund, Section 5.0 – Please describe the difference between the 10 digit and the 12 digit account numbers. Do they designate or segregate types of accounts? **The account numbers 71391xxxxx and 15160xxxxxxx are Money Market Fund accounts. The account number 43486xxxxx and 2516xxxxxxx are Prime Fund accounts. The account numbers do not designate account types, there is another field that carries a 2 digit account type code, such as 03 for municipalities and 36 for school districts.**

Check Writing – Money Market Fund, Section 10.2 – Was that statement intended to be a maximum of 1,000 free checks per year provided? **Yes, the custodian will furnish up to 1,000 checks per year, per account. If a participant needs to order their own check stock the Custodian will credit their account $50 towards the purchase of their check stock.**

Reports to the Treasurer, Section 17.3 – Can the Treasurer provide actual examples of all reports provided currently as outlined in points a - e? **Copies of reports are attached**

Marketing, Section 27.0 – Can the Treasurer provide a copy of the current report being provided by the current custodian as an example? **We will work with the custodian to create this report**

Web Pages, Section 29.1 – Can you further describe what the Treasurer might request as far as web pages? **Would mainly be if we need pages to access the online transaction forms. We will have our own web developers for our website.**

PC-Based Cash Management System, Section 30.0 – Given the fact that charges are being assessed to participants today, is the online access described in this section being provided for free today or at a cost? **We expect this service to be at no charge to participants.** Also, would the State be open to the participants being provided a system that has balance & transaction reporting capability but billed for other modules that include other capabilities? **This is not the ideal option.**

11.3 Special Dividends. The Treasurer may require the custodian…

Could you please provide an example of a special dividend and when it might be required?
Special Dividends can be used for the distribution of any type of gain. These have generally been used sparingly and it is anticipated that this trend will continue. Could also be used if we accrue excessive balances in our Administrative fund and we need to make a distribution back to the Participants. We have not had to use this in the past several years.

Trust Fund Accounting, General Ledger and Portfolio Management

19.1.C Performance of "marked-to-market" analysis on a weekly basis which shall be provided to the Treasurer by the close of business on the first Business day of the following week.

Please clarify the elements and from what specific sources should be captured in this weekly analysis?
This is part of the custodian's responsibility to be able to provide all documents required by Standard & Poor's for their surveillance of the funds. All assets of the funds in custody will need to have a marked to market completed from acceptable independent industry sources.

19.1. D Collateralization of all repurchase agreements as required

Will the tri-party repurchase agreements be reported as "cash equivalents" on custodian statements and if so what will be the source and verification of the data?
These will still need to be shown as repurchase agreements on the statements. Verification can be accomplished in the same manner as other financial assets held by a third party custodian.

In the daily balancing that is done by the bank and custodian, will the repurchase agreements continue to be part of the process? **Yes.** What modification to the current process can be expected? **Only that which is required for verification of balances with the third party custodian at this time.** Please define impact, if any, of the calculation of NAV and WAM. **None**

Bond Proceeds Management and Arbitrage Services

Will the arbitrage services be available for existing bond issues or just new bond issues?
We would assume this would be available for new issues.

Who will be responsible for the selection of the rebate provider or the arbitrage service provider?
Custodian with approval of the Treasurer. What will be the parameters of the selection process for the arbitrage provider? **TBD**

Is the State interested in having the bond proceeds and management and the arbitrage services bundled even if the delivery of the services is from different entities?
The responses should address the proposers suggestions on these items, could be different entities.

40.0 Proposal Format

40.2. D The proposal should not exceed 12 pages excluding Introduction, 39.1, 39.3, 39.5 and addenda items.

Is 39.2 included in the 12 page maximum? **This proposal limitation is not necessary, but please be as short and concise as possible.**

Section 1.0 Can we deliver reports electronically rather than by delivery courier? **The reports from the Comptroller's office are hard copy reports and warrants, must be picked up and delivered by courier. If a process can be worked out to the Treasurer's office approval, applications and bank reports could be sent electronically.**

Section 1.0 Please describe in detail the arrangements (including parties) involved with the updating and maintaining the E-Pay website? **The current custodian has a development contract with MSFW (Contractor - Spfld, IL) and a hosting contract with Hanson (Contractor - Spfld, IL). This contract provides abilities for MSFW to contractually perform web development requested by the Treasurer's office. The custodian receives all invoices from the contractor and then forwards these invoices to the attention of the E-Pay program manager. The manager then reviews, approves or disputes any charges. Once approved, the custodian then makes payment to the contractor from the Technology Reserve Fund. All development updates and communications for the E-Pay website are by and in-between the Treasurer and the contractor. The custodian merely manages the contract of invoicing and payments to the contractor.**

Section 2.0 Please describe your current methods of pledging assets (for instance, are new accounts established for pledges, is the custodian required to execute a pledge agreement -- please provide samples) **This refers to instances where collateral is pledged to the Illinois Funds, in all cases of these investments the custodian will not be required to execute any agreement for this on behalf of the Funds.**

Section 6.1 30 business or calendar days? **30 calendar days**

Section 7.2 What are the requirements of the security code (length, alpha numeric, etc)? **We do not have a security code requirement, as of now the security code is between 5 and 9 digits (numerical)**

Section 7.6 For withdrawals made on date T, please confirm that both ACH and wire transmittals are required to be available to the participant at approximately 8:00 am CST on T+1. **Money Market Fund wire withdrawals requested by 11:00am must post that day, ACH withdrawal requests must post to the participant's account the next business day.**

Section 8.1 Please explain the 30 day penalty on partially liable lots. For example client redeems $2000, only $1000 was purchased in last 30 days - assumption is fee only charged on the $1000, correct? **This is correct**

Section 9.2 Is the EFT originator the bank or the client, and what data element? **Could be the Bank or the participant**

Section 11.1 Please provide sample of Prime Fund Aging Report and Monthly Rate Sheets **Aging Report was distributed at the Bidder's Conference, Rate Sheets are attached**
Under Processing of Securities Transactions, what are the "Wires" **These primarily include wires for purchases of sweep MMF's & wires from Trust to Banking Services.**

Please confirm that "pieces of collateral" describes the number of repurchase agreement collateral securities deposited and withdrawn during the month? **Correct**
Please confirm that "Participant Collateral Account Activity" relates to the services described in Section 24.0? **Yes**
What is the value of securities in the "Participant Collateral Accounts"? **$726 Million**
Are the foreign stock and bonds in the Participant Collateral Accounts ADRs or does it include foreign securities (ordinaries)? **Yes**

Section 11.8 Can the reduction described be calculated on a monthly basis? **No**

Section 15.0 Please confirm that the custodian is required to pay for all statement and confirmation stock paper and postage for all mailings? **The custodian is required to pay these costs.**

Section 17.1 The RFP indicates that the Custodian must be able to provide monthly statement copies on the first business day of the following month (last sentence), but the section notes that statements are to be provides within 2 business days of the following month. Please explain? **If a participant needs a statement on the first day of the month, the Custodian must be able to print off the information and fax it to the Participant. The Participant would receive the statement much quicker than waiting for the mail.**

Section 17.2 Would consolidation of all of a participant's accounts (not just two accounts) be beneficial to the participant base? **We currently have the option of one Money Market and one Prime account, present your ideas on additional accounts**

Section 17.3 Please provide copies of all referenced reports (samples)? **We will supply copies of current reports.**

Section 18.0(j)Please confirm that the staff need not be located in Illinois? **There is not a requirement for this, however; the custodian will be expected to maintain and/or improve upon the current level of service.**

Section 24.0 Is the treasurer willing to be the contracting party on behalf of the participant's requesting this service? **No**

Section 27.0(a) Please provide a summary of last year's reports (how many contacts were made during the year?, what other activities were conducted?) **The current custodian has funded the Marketing reserve and not required to complete other marketing therefore no monthly report.**

Section 27.0(a) Please describe in as much detail as possible the activities conducted last year? **There were no activities conducted by the current custodian.**

Section 29.1 Who hosts the Illinois Funds' web site? Is this an ongoing contract or is it under review. **Hanson Information Systems**

Section 38.2 Please describe in more detail -- is the request for Custodian to provide services to pension funds with respect to their investment in the funds or other services? **Administrative Services**

Section 41.3 Please confirm that custodian is not required to act as a trustee, but rather as a custodian. **Correct**

Section 41.5 Please indicate the process desired for bidders to take exception to certain contractual requirements stated in the RFP such as to deliver a full copy of their COB plan (for instance, delivery of a summary of the plan along with a committee to discuss the plan in detail)? **State what you will or will not be able to provide, if not able, state what you can provide in place of this requirement.**

Are any performance, attribution, or Value at Risk services desired or beneficial to the Treasurer? **There was no clarification of this question**

Can you please provide a list of incumbent providers of all of the services required in the RFP as well as their current fee schedules? **US Bank is the current custodian. Fee schedule is listed below.** Can you please provide corresponding contracts and agreements with these service providers? **All vendors are entitled to a copy of the contract and may obtain one by submitting a request to our office pursuant to the Illinois Freedom of Information Act.**

Please provide a list of holdings for both the Money Market Fund and the Prime Fund as well as any other fund(s)/account where custodial services are required? Please provide the requested information in Excel if possible broken down by account, CUSIP, description, market value and settlement location? **In a Pdf, Settlement is at Custodian's location** Where is last year's cost and expense information available? **N/A**

Please provide a current list of Illinois Funds participants and their locations. **Upon successful award of the contract this will be provided.**

Please provide a complete list of assets broken down by fund including asset identifier, asset description, asset type, shares/par value, market value and country of currency. **In a Pdf**

Please indicate the average daily cash balance available for overnight investment by the custodian. **The average amount of late funds swept into an approved overnight money market fund was $2.0 million in the last two years.**

Please provide a quarterly NAV summary for Illinois Funds over the past 5-years. Please describe any seasonal swings in NAV values during a typical year. **Fiscal Years 2001 – 2007 in a Pdf**

Please provide the current fee schedule for Illinois Funds based on your contract with the current Custodian.

MMF

1st $2 billion	**5.00 bp**
Next $1 billion	**2.50 bp**
Next $500 Million	**2.48 bp**
Over $3.5 billion	**2.46 bp**

PF

1st $500 million	**5.16 bp**
Next $500 million	**2.95 bp**
Next $500 million	**2.65 bp**
Next $500 million	**2.55 bp**

Over $2.0 billion 2.50 bp

Please describe the legal relationship between Illinois Funds and the Illinois State Treasurer. Who is legally responsible for overdrafts (daylight or actual)? **The Illinois Funds is created by State Statute and administered by the State Treasurer. As part of the custodial services requested these costs and responsibilities will be born by the custodian.**

Please describe the purpose of 81 custodial accounts and how these relate to the 7,149 participant accounts. **The custodial accounts are those referred to in section 24 of the RFP. For an entity to receive the discounted fees, they must be an Illinois Funds participant.**

How many organizations currently participate in the Local Government Public Agency Short-term Loan Program? How many loans were funded in each of the past 3-years? **The Loan Program only affects the custodian as a deposit into an Illinois Funds account. The custodian is not responsible for the loan process. We have processed less than 10 loans per year.**

Can you provide details on the current levels of service (actual deadlines, NAV accuracy, etc.) and resulting penalties (percentages of revenue, actual dollars) that are currently in place. **The current levels of service are those negotiated under a prior RFP and it is anticipated that those negotiated under this RFP will be different and indistinguishable because of the unique differences between proposers, because of this, responses should address the proposers suggestions on these items.**

Can you describe and/or provide the Standard and Poors quality standards that the fund and custodian must adhere to achieve your desired quality rating. **In a Pdf**
Can you describe "perfected interest" under Illinois Uniform Commercial Code Article 9. **The proposer should consult its own counsel on interpretations of the Uniform Commercial Code.**

Referencing Section 38.2 - Can you describe the Pension Services you want us to consider providing as a discount for servicing the Money Market Funds contained in the RFP. **Administrative Services**

Please identify the participant recordkeeping system currently in use in order to assess conversion process and timeline. **Hogan**

Are the toll free numbers currently in use transferable? **Yes, the 800 number is owned by the Treasurer's Office.**

Can you please provide volume of inquiries - written and calls? **These are addressed in section 11.1 of the RFP.**

Can you please provide samples of statements? **Samples were provided at the Bidder's conference.**
Referencing Section 14.1 - Can you please clarify what is meant by "investment property"? **The proposer should consult with their legal counsel on interpretations of the Uniform Commercial Code.**

Technology/Reporting

Please provide samples of all requested reports – standard and custom. **Copies of reports are attached**

What is the cost of the licensing agreement with QED? **$42,194.41 (4/1/07 – 3/31/08) a new custodian would be required to reimburse the current custodian for the prorated amount at the time of conversion**

Does the current custodian have a licensing agreement today with QED? **Yes**

Accounting

Referencing Section 5.0 - Is it mandatory to maintain the 10 digit and/or 12 digit account numbers? **We strongly prefer to keep the existing account numbers. New accounts could have a different account number sequence but we do need to keep separate sequences for Money Market and Prime accounts**

Referencing Section 19.2 - Please briefly describe the interface to your Portfolio Management Systems. What is the type and frequency of information transmitted? **This is no longer required and/or needed.**

E-Pay

How many local governments/state agencies participate in E-Pay? **Approximately 500**

Who is the current provider of the E-Pay website? **ACH Direct, Global Payments, First Data Govt. Solutions & Official Payments Corp.**

What fees are charged for the website? Hourly development costs & monthly hosting expense. **Hourly development costs & hosting expenses are paid from the Custodian's Technology Reserve Fund.**

Does the Treasurer expect the Custodian to utilize the same firm as currently used for the E-Pay website? **Yes**
How many E-Pay transactions are processed annually? **2006 = 900K + transactions processed successfully & $122 Million deposited.**

How often is the E-Pay website updated? **Monthly**

Performance Measurement & Analytics

At what level(s) do you want to see performance reporting – total fund, manager and/or security level? **We would negotiate this with the successful bidder**
Do you require performance attribution reporting? **We would negotiate this with the successful bidder**
Do you want peer group analysis? **We would negotiate this with the successful bidder**
Do you require analytics on at the fund, portfolio or security level? **We would negotiate this with the successful bidder**

Securities Lending

Please supply us with the cash collateral investment guidelines which should be used to calculate potential securities lending income. **Please refer to the Investment Policy Guidelines and make suggestions, within the S & P guidelines, how we could be successful with the Securities Lending**

Methods of Deposit

Please describe how the Treasurer envisions Remote Deposit Capture working in the context of the funds? **The response should address the proposers suggestions on this item. Participants would be able to use Remote capture in place of having Custodian branches available for check deposits into Illinois Funds accounts.**

Provide an estimate of the locations and volumes of items to be processed by remote deposit capture? **Since this would be a new service, we do not have an estimate of items or participants**

Who will be the primary users of remote deposit capture services? **Unknown, we would assume participants who mail in deposits or currently use Custodian branches for deposits would be interested in this option**

Marketing Services

The custodian is expected to perform sales and marketing work. Please explain. **We are not requiring a specific amount of marketing by the custodian since we require the funding of the marketing reserve. If the custodian does marketing we ask for a monthly report detailing the marketing efforts.**

Is this requirement currently being provided and adhere to by your current custodian? **The Current custodian funds the Marketing reserve monthly.**

Does this requirement preclude us from selling other products and services of the bank to the Illinois Fund participants? **The custodian is prohibited from marketing competing products to current or potential participants.**

Proposal Format

We have been requested to reiterate the sections/paragraphs of the proposal followed by our response. This reiteration alone will require the use of more than 12 pages. Please confirm this requirement. **This proposal limitation is not necessary, but please be as short and concise as possible.**

Do responses to sections 40.5 through 41.15 count toward 12 page response limit? **This proposal limitation is not necessary, but please be as short and concise as possible.**

Other

Referencing Section 41.5 – Will summary information suffice of our disaster recovery plans? **Summary information would be acceptable for the RFP but will need complete information before transition.**

Referencing Section 41.9 – Can you please provide the statutory provision that exempts the State of Illinois from indemnification? **The Attorney General's opinion is attached as a Pdf.**

In section 19.1 d) it is stated the Treasurer may decide to use tri-party repurchase agreements in place of traditional delivery versus payment repurchase agreements in the future. Please provide a pricing option in your proposal to address the cost savings this would provide.

Question 1: Other than the minimal cost savings associated with the custodial bank's administrative support staff time, what are the specific cost-saving advantages for the Treasurer's office that result from the purchase of tri-party repos? **Costs associated with the transfer of securities**

Question 2: Are site visits referred to on page 27 of the RFP expected to be conducted at the proposer's Springfield branch location or elsewhere? **Visits should be at site of the vendor's operations for The Illinois Funds**

Is the daily NAV and WAM calculation that is due each day by 4:30 pm based upon prior day assets or current day assets with intra-day pricing? This is required in RFP section 19.1 (a and b). **Current day assets**

In the marketing section of the RFP, the response details that the individuals permanently assigned to the Illinois Funds shall not market competing products. What effect does this have on the winning bidder in terms of existing products that may be available and utilized by current and non Illinois Funds Clients? **Existing business would be exempt from this clause, but no additional marketing of competing products would be allowed to Participants or potential Participants.**

Will the Treasurer accept proposals that maintain existing current relationships in competing products and a non-compete on new clients to the Illinois Funds and/or the winning bidder? **Yes**

Additionally, would this restriction apply to a Fund Family that offers Treasury and Government Money Market funds at a national level? **This non-compete only applies to products that are the similar to products offered by The Illinois Funds to entities in the State of Illinois who are potential Illinois Funds participants**

The Illinois Funds RFP Bidder's Requested Reports

Historical Average Balances
Investment Inventory - Money Market Fund
Investment Inventory - Prime Fund
S & P Fund Rating Criteria
Prime Fund Confirmed Redemption Report
Daily Fund Profile
Money Market Custody Month End Bank Statement
Participant Balance Report - Weekly
Participant Balance Report - Monthly with Average Daily Balance
Daily Inflow/Outlfow - Money Market Fund
Daily Inflow/Outlfow - Prime Fund
Money Market Fund Monthly Rate Sheet
Prime Fund Monthly Rate Sheet
Daily Overdraft Report
Daily Large Item report
Locally Held Funds Report
Participant Inquiry Form
Account Open Report
Account Close Report
Indemnification Opinion

Balance Averages for July 2001 to June 2007

Money Market Fund	FY	July	August	September	October	November	December	January	February	March	April	May	June	AVERAGE
AVG. DAILY NET ASSETS (THOUSANDS)	2001	$3,600,051	$3,554,068	$3,682,376	$3,972,000	$3,948,698	$3,632,493	$3,662,939	$3,606,821	$3,676,766	$3,875,192	$4,055,257	$4,018,386	$ 3,773,754
AVG. DAILY NET ASSETS (THOUSANDS)	2002	$4,070,194	$4,422,712	$4,282,040	$4,400,996	$4,518,738	$4,164,959	$4,192,527	$4,113,019	$4,475,434	$4,299,037	$4,251,804	$3,751,674	$ 4,245,261
AVG. DAILY NET ASSETS (THOUSANDS)	2003	$3,741,617	$3,779,728	$3,775,002	$3,910,783	$3,971,187	$3,768,569	$3,770,836	$3,569,243	$3,544,747	$3,608,822	$3,448,889	$3,971,802	$ 3,738,435
AVG. DAILY NET ASSETS (THOUSANDS)	2004	$4,049,993	$3,549,755	$3,535,792	$4,035,629	$4,075,226	$3,926,335	$3,900,806	$3,811,550	$3,857,323	$3,894,390	$4,029,229	$4,312,467	$ 3,914,875
AVG. DAILY NET ASSETS (THOUSANDS)	2005	$4,138,455	$4,134,208	$4,297,651	$4,161,359	$3,958,693	$3,811,313	$3,831,826	$3,721,237	$3,856,168	$4,124,319	$4,373,062	$4,570,134	$ 4,081,535
AVG. DAILY NET ASSETS (THOUSANDS)	2006	$4,576,451	$4,462,670	$4,463,178	$4,610,632	$4,853,114	$4,445,570	$4,390,601	$4,423,899	$4,593,237	$4,725,849	$4,952,304	$4,980,319	$ 4,623,152
AVG. DAILY NET ASSETS (THOUSANDS)	2007	$4,825,044	$4,733,999	$5,073,817	$5,228,270	$5,042,273	$4,928,444	$5,026,279	$4,915,612	$5,197,518	$5,416,057	$5,564,983		$ 5,086,572
Prime Fund	**FY**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**June**	**AVERAGE**
AVG. DAILY NET ASSETS (THOUSANDS)	2001	n/a	n/a	n/a	$187,773	$310,306	$363,213	$423,007	$473,571	$511,469	$575,922	$625,056	$646,540	$ 457,429
AVG. DAILY NET ASSETS (THOUSANDS)	2002	$682,004	$681,126	$728,526	$782,802	$890,174	$870,957	$865,630	$873,687	$934,985	$916,877	$878,051	$847,920	$ 829,395
AVG. DAILY NET ASSETS (THOUSANDS)	2003	$ 779,098	$ 779,563	$791,280	$806,913	$844,775	$846,933	$813,666	$828,407	$807,797	$767,394	$756,690	$734,153	$ 796,389
AVG. DAILY NET ASSETS (THOUSANDS)	2004	$ 750,497	$ 738,165	$725,836	$742,297	$736,387	$723,091	$700,547	$734,765	$821,355	$854,593	$853,205	$834,931	$ 767,972
AVG. DAILY NET ASSETS (THOUSANDS)	2005	$ 812,237	$ 771,648	$767,236	$779,999	$797,655	$790,368	$782,647	$757,901	$725,518	$721,918	$707,519	$704,043	$ 759,891
AVG. DAILY NET ASSETS (THOUSANDS)	2006	$ 719,272	$ 716,938	$710,135	$751,314	$746,589	$780,518	$796,268	$799,826	$816,547	$818,070	$812,397	$822,985	$ 774,238
AVG. DAILY NET ASSETS (THOUSANDS)	2007	$ 868,866	$ 884,502	$932,059	$1,006,287	$1,033,958	$1,021,890	$1,035,303	$1,045,524	$1,058,040	$1,090,829	$1,194,565		$ 1,015,620

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

STATE OF ILLINOIS
OFFICE OF THE TREASURER
WATERMARK INVENTORY

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)
*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

REPURCHASE AGREEMENTS (10)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
151028	1	RP71512Y	GREENWICH CAP	5.080	6/01/07	5.080	1300000000.00		100.00000	9	1300000000.00	1300000000.00		
151029	1	RP71512Z	HSBC	5.080	6/01/07	5.080	1300000000.00		100.00000	9	1300000000.00	1300000000.00		
151030	1	RP715130	MIZUHO SECURI	5.090	6/01/07	5.090	800,000,000.00		100.00000	9	800,000,000.00	800,000,000.00		
151031	1	RP715131	NESBITT BURNS	5.080	6/01/07	5.080	400,000,000.00		100.00000	9	400,000,000.00	400,000,000.00		
151032	1	RP715132	BANK OF AMERI	5.070	6/01/07	5.070	500,000,000.00		100.00000	9	500,000,000.00	500,000,000.00		
151033	1	RP715133	SALOMON SMITH	5.000	6/01/07	5.000	500,000,000.00		100.00000	9	500,000,000.00	500,000,000.00		
151034	1	RP715134	MIZUHO SECURI	4.950	6/01/07	4.950	200,000,000.00		100.00000	9	200,000,000.00	200,000,000.00		
151035	1	RP715135	NESBITT BURNS	4.900	6/01/07	4.900	300,000,000.00		100.00000	9	300,000,000.00	300,000,000.00		
						5.058	5300000000.00				5300000000.00	5300000000.00		

8 ITEMS IN SUBTOTAL FOR: REPURCHASE AGREEMENTS (TYPE 10)

CERT OF DEPOSIT - MON INT (35)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
132551	1	01007C01	ANNA NATIONAL	5.290	8/10/07	4.953	400,000.00		100.06456	5	400,000.00	400,258.23		258.23
138355	1	04521C01	FIRST STATE B	5.160	5/09/08	4.914	2,000,000.00		100.22584	5	2,000,000.00	2,004,516.72		4,516.72
130373	1	06600C01	CARLINVILLE N	5.260	12/04/07	4.964	1,000,000.00		100.14889	5	1,000,000.00	1,001,488.88		1,488.88
130763	1	08257C01	UNITED COMMUN	5.260	8/10/07	4.953	5,000,000.00		100.05879	5	5,000,000.00	5,002,939.57		2,939.57
149664	1	08257C05	UNITED COMMUN	5.270	4/08/08	4.925	3,000,000.00		100.28829	5	3,000,000.00	3,008,648.65		8,648.65
131163	1	08734C02	AMERICAN METR	5.330	9/19/07	4.963	100,000.00		100.10932	5	100,000.00	100,109.32		109.32
136368	1	08930C01	BANCO POPULAR	5.310	8/03/07	4.950	6,000,000.00		100.06245	5	6,000,000.00	6,003,746.83		3,746.83
132824	1	09357C01	ASSOCIATED BA	5.290	8/28/07	4.962	100,000.00		100.07875	5	100,000.00	100,078.75		78.75
129903	1	10474C01	INTERNATIONAL	5.310	11/09/07	5.310	1,500,000.00		100.00000	9	1,500,000.00	1,500,000.00		
130563	1	10474C03	INTERNATIONAL	5.230	9/21/07	4.963	425,000.00		100.08091	5	425,000.00	425,343.87		343.87
131100	1	10474C04	INTERNATIONAL	5.350	3/14/08	4.934	1,500,000.00		100.32081	5	1,500,000.00	1,504,812.11		4,812.11
145649	1	10474C05	INTERNATIONAL	5.370	11/02/07	4.965	1,000,000.00		100.16885	5	1,000,000.00	1,001,688.52		1,688.52
131248	1	10586C02	LAKE BANK CHI	5.280	7/05/07	4.936	8,500,000.00		100.03307	5	8,500,000.00	8,502,810.86		2,810.86
130958	1	13206C01	STATE BANK OF	5.290	2/04/08	4.946	600,000.00		100.22856	5	600,000.00	601,371.37		1,371.37
135881	1	13206C03	STATE BANK OF	5.430	7/19/07	4.943	500,000.00		100.06495	5	500,000.00	500,324.76		324.76
129921	1	16252C02	FIRST NATINOA	5.290	6/14/07	4.933	800,000.00		100.01317	5	800,000.00	800,105.37		105.37
129785	1	16908C01	DUQUOIN STATE	5.330	12/04/07	4.964	1,800,000.00		100.18412	5	1,800,000.00	1,803,314.12		3,314.12
132552	1	17101C01	NATIONAL BANK	5.250	6/05/08	4.308	400,000.00		100.93225	5	400,000.00	403,728.98		3,728.98
131327	1	20905C01	GALENA STATE	5.290	7/06/07	4.936	1,000,000.00		100.03491	5	1,000,000.00	1,000,349.10		349.10
135444	1	20905C03	GALENA STATE	5.170	11/07/07	4.965	700,000.00		100.08798	5	700,000.00	700,615.86		615.86
132554	1	21555C03	GERMANTOWN TR	5.480	10/30/07	4.965	500,000.00		100.21073	5	500,000.00	501,053.63		1,053.63
131599	1	24202C01	PARKWAY BANK	5.220	11/02/07	4.965	8,000,000.00		100.10633	5	8,000,000.00	8,008,506.71		8,506.71
141999	1	24800C01	FIRST BANK OF	5.260	12/04/07	4.964	500,000.00		100.14889	5	500,000.00	500,744.44		744.44
145929	1	24800C04	FIRST BANK OF	5.330	7/12/07	4.939	500,000.00		100.04476	5	500,000.00	500,223.79		223.79
147501	1	24800C06	FIRST BANK OF	5.160	9/11/07	4.962	500,000.00		100.05454	5	500,000.00	500,272.68		272.68
150607	1	24800C07	FIRST BANK OF	5.170	9/07/07	4.962	500,000.00		100.05519	5	500,000.00	500,275.97		275.97
130425	1	26055C01	IROQUOIS FARM	5.470	7/12/07	4.939	300,000.00		100.06086	5	300,000.00	300,182.57		182.57
130280	1	30052C01	WEST SUBURBAN	5.240	6/20/07	4.933	5,000,000.00		100.01625	5	5,000,000.00	5,000,812.24		812.24
132796	1	31750C01	FEDERAL SAVIN	5.230	6/25/07	4.933	95,000.00		100.01975	5	95,000.00	95,018.76		18.76
131217	1	34050C01	FIRST BANK MO	5.250	2/04/08	4.946	2,100,000.00		100.20197	5	2,100,000.00	2,104,241.35		4,241.35
141244	1	34603C01	FIRST NATIONA	5.280	8/10/07	4.953	300,000.00		100.06264	5	300,000.00	300,187.91		187.91
132464	1	34733C01	WABASH SAVING	5.330	8/02/07	4.949	95,000.00		100.06501	5	95,000.00	95,061.76		61.76
133128	1	36102C05	CORN BELT BAN	5.230	9/25/07	4.963	200,000.00		100.08375	5	200,000.00	200,167.50		167.50
133321	1	36102C06	CORN BELT BAN	5.240	9/14/07	4.963	95,000.00		100.07886	5	95,000.00	95,074.91		74.91
137892	1	39354C01	EDGAR COUNTY	5.290	9/05/07	4.962	3,000,000.00		100.08549	5	3,000,000.00	3,002,564.59		2,564.59

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
138587	1	40408C01	SOUTH SIDE BA	5.280	7/25/07	4.946	2,000,000.00		100.04992	5	2,000,000.00	2,000,998.48		998.48
132600	1	46697C01	AMERICAN EAGL	5.280	8/10/07	4.953	100,000.00		100.06264	5	100,000.00	100,062.64		62.64
136740	1	47555C01	PRAIRIE NATIO	5.290	9/06/07	4.962	1,000,000.00		100.08633	5	1,000,000.00	1,000,863.26		863.26
139827	1	47555C02	PRAIRIE NATIO	5.200	7/24/07	4.945	1,000,000.00		100.03733	5	1,000,000.00	1,000,373.32		373.32
130478	1	47984C03	AMERICAN HEAR	5.220	9/12/07	4.962	300,000.00		100.07182	5	300,000.00	300,215.47		215.47
130791	1	47984C05	AMERICAN HEAR	5.300	2/15/08	4.943	250,000.00		100.24739	5	250,000.00	250,618.46		618.46
130792	1	47984C06	AMERICAN HEAR	5.320	8/16/07	4.956	250,000.00		100.07556	5	250,000.00	250,188.89		188.89
131495	1	47984C08	AMERICAN HEAR	5.200	4/24/08	4.919	250,000.00		100.24614	5	250,000.00	250,615.34		615.34
136876	1	47984C13	AMERICAN HEAR	5.240	9/19/07	4.963	500,000.00		100.08248	5	500,000.00	500,412.42		412.42
130451	1	48208C02	NATIONAL BANK	5.280	9/05/07	4.962	1,000,000.00		100.08288	5	1,000,000.00	1,000,828.75		828.75
130564	1	48208C03	NATIONAL BANK	5.220	9/21/07	4.963	1,250,000.00		100.07788	5	1,250,000.00	1,250,973.46		973.46
132964	1	49906C02	MARSHALL COUN	5.230	9/14/07	4.963	500,000.00		100.07601	5	500,000.00	500,380.04		380.04
141673	1	49906C03	MARSHALL COUN	5.240	9/18/07	4.963	500,000.00		100.08176	5	500,000.00	500,408.78		408.78
129769	1	50407C01	FARMERS & MER	5.200	12/04/07	4.964	300,000.00		100.11869	5	300,000.00	300,356.07		356.07
149592	1	51404C01	FIRST MIDWEST	5.280	7/03/07	4.935	10,000,000.00		100.03136	5	10,000,000.00	10,003,136.34		3,136.34
135239	1	51655C03	COMMUNITY BAN	5.360	6/20/07	4.933	1,000,000.00		100.02267	5	1,000,000.00	1,000,226.70		226.70
						4.950	78,210,000.00				78,210,000.00	78,281,299.10		71,299.10

51 ITEMS IN SUBTOTAL FOR: CERT OF DEPOSIT - MON INT (TYPE 35)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
					MONEY MARKET FUNDS (9500)									
4404	1	10100069	MILESTONE MMF	4.990			291,650,286.32		1.00000	1	291,650,286.32	291,650,286.32		
133617	1	31846V54	FIRST AM TRSY	4.980			293,292,917.81		1.00000	1	293,292,917.81	293,292,917.81		
4407	1	38141W32	GOLDMAN FINAN	4.990			22,638,087.20		1.00000	1	22,638,087.20	22,638,087.20		
4403	1	60934N50	FEDERATED #06	4.990			50,000,000.00		1.00000	1	50,000,000.00	50,000,000.00		
38776	1	82525240	AIM TREASURY	5.030			25,000,000.00		1.00000	1	25,000,000.00	25,000,000.00		
						======	682,581,291.33				682,581,291.33	682,581,291.33		

5 ITEMS IN SUBTOTAL FOR: MONEY MARKET FUNDS (TYPE 9500)

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

S T A T E O F I L L I N O I S
O F F I C E O F T H E T R E A S U R E R
W A T E R M A R K I N V E N T O R Y

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)
*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

*** MONEY MARKET FUNDS (9500) ***

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
=== GRAND-TOTAL ==>						4.487	6060791291.33				6060791291.33	6060862590.43		71,299.10

64 ITEMS IN REPORT TOTAL

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

STATE OF ILLINOIS
OFFICE OF THE TREASURER
WATERMARK INVENTORY

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)
*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

*** REPURCHASE AGREEMENTS (10) ***

REPURCHASE AGREEMENTS (10)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
151036	22	RP715136	BARCLAY'S CAP	5.280	6/01/07	5.280	300,000,000.00		100.00000	9	300,000,000.00	300,000,000.00		
151037	22	RP715137	UBS	5.280	6/01/07	5.280	300,000,000.00		100.00000	9	300,000,000.00	300,000,000.00		
151038	22	RP715138	BANK OF AMERI	5.260	6/01/07	5.260	190,000,000.00		100.00000	9	190,000,000.00	190,000,000.00		
						5.275	790,000,000.00				790,000,000.00	790,000,000.00		

3 ITEMS IN SUBTOTAL FOR: REPURCHASE AGREEMENTS (TYPE 10)

COMMERCIAL PAPER (20)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
151026	22	0660P1T1	BK OF AMERICA		6/01/07	5.405	50,000,000.00		100.00000	9	50,000,000.00	50,000,000.00		
150782	22	06737JUH	BARCLAYS	5.245	7/17/07	4.942	50,000,000.00		99.32462	5	49,664,902.77	49,662,308.22		-2,594.55
150109	22	12556VTC	CIT GROUP	5.260	6/12/07	4.933	25,000,000.00		99.82707	5	24,959,819.45	24,956,767.12		-3,052.33
150753	22	12556VTD	CIT GROUP	5.260	6/13/07	4.933	10,000,000.00		99.81266	5	9,982,466.67	9,981,265.75		-1,200.92
150906	22	12556VTM	CIT GROUP	5.260	6/21/07	4.933	15,000,000.00		99.69737	5	14,956,166.67	14,954,605.48		-1,561.19
150213	22	17307STE	SSB CITI-GLOB		6/14/07	5.357	50,000,000.00		99.81042	9	49,905,208.33	49,905,208.33		
150544	22	25153KT8	DEUTSCHE BANK	5.250	6/08/07	4.933	50,000,000.00		99.88493	5	49,948,958.33	49,942,465.75		-6,492.58
151027	22	36960MT1	GE CO		6/01/07	5.374	50,000,000.00		100.00000	9	50,000,000.00	50,000,000.00		
150450	22	4042F1T8	HSBC/HOUSEHOL		6/08/07	5.351	50,000,000.00		99.89792	9	49,948,958.33	49,948,958.33		
149945	22	9026X1TK	UBS AMERICAS		6/19/07	5.366	50,000,000.00		99.73775	9	49,868,875.00	49,868,875.00		
						5.208	400,000,000.00				399,235,355.55	399,220,453.98		-14,901.57

10 ITEMS IN SUBTOTAL FOR: COMMERCIAL PAPER (TYPE 20)

QED-V2R9.65
All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

STATE OF ILLINOIS
OFFICE OF THE TREASURER
WATERMARK INVENTORY

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)

*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

*** CERT OF DEPOSIT - MON INT (35) ***

CERT OF DEPOSIT - MON INT (35)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
141539	22	01182C04	TOWN AND COUN	5.270	9/05/07	5.270	865,000.00		100.00000	9	865,000.00	865,000.00		
130565	22	01285C01	ARCOLA HOMEST	5.370	7/25/07	4.946	95,000.00		100.06339	5	95,000.00	95,060.22		60.22
131613	22	01632C01	CENTRAL BANK	5.170	5/02/08	4.916	300,000.00		100.22830	5	300,000.00	300,684.90		684.90
132151	22	08257C03	UNITED COMMUN	5.450	6/26/07	4.933	1,000,000.00		100.03587	5	1,000,000.00	1,000,358.72		358.72
132299	22	08257C04	UNITED COMMUN	5.430	7/19/07	4.943	900,000.00		100.06495	5	900,000.00	900,584.57		584.57
131031	22	08734C01	AMERICAN METR	5.260	1/09/08	4.954	100,000.00		100.18283	5	100,000.00	100,182.83		182.83
130665	22	10335C01	HIGHLAND COMM	5.280	2/04/08	4.946	100,000.00		100.22191	5	100,000.00	100,221.91		221.91
130297	22	10474C02	INTERNATIONAL	5.350	11/16/07	4.965	1,000,000.00		100.17418	5	1,000,000.00	1,001,741.80		1,741.80
131032	22	10586C01	LABE BANK-CHI	5.280	8/06/07	4.951	100,000.00		100.05956	5	100,000.00	100,059.56		59.56
131561	22	12021C01	PULASKI SAVIN	5.210	5/02/08	4.916	95,000.00		100.26429	5	95,000.00	95,251.07		251.07
132371	22	12919C01	WASHINGTON FE	5.420	7/20/07	4.943	95,000.00		100.06483	5	95,000.00	95,061.59		61.59
131899	22	13206C02	STATE BANK OF	5.180	6/06/08	4.254	100,000.00		100.91958	5	100,000.00	100,919.58		919.58
131427	22	13756C01	FIRST NATIONA	5.350	3/14/08	4.934	600,000.00		100.32081	5	600,000.00	601,924.84		1,924.84
130666	22	14070C01	COLLINSVILLE	5.280	1/04/08	4.955	95,000.00		100.18976	5	95,000.00	95,180.27		180.27
129764	22	16252C01	FIRST NATIONA	5.330	8/20/07	4.958	300,000.00		100.08122	5	300,000.00	300,243.66		243.66
131328	22	16252C03	FIRST NATIONA	5.200	11/02/07	4.965	300,000.00		100.09800	5	300,000.00	300,293.99		293.99
130108	22	16908C02	DUQUOIN STATE	5.290	8/02/07	4.949	600,000.00		100.05818	5	600,000.00	600,349.05		349.05
130281	22	16908C03	DUQUOIN STATE	5.230	9/13/07	4.963	1,000,000.00		100.07531	5	1,000,000.00	1,000,753.13		753.13
131883	22	17008C01	BANK OF DWIGH	5.220	5/23/08	4.909	1,000,000.00		100.29663	5	1,000,000.00	1,002,966.33		2,966.33
129765	22	17204C01	EAST DUBUQUE	5.230	9/25/07	4.963	500,000.00		100.08375	5	500,000.00	500,418.75		418.75
131789	22	17848C01	CROSSROADS BA	5.250	12/14/07	4.961	1,000,000.00		100.15274	5	1,000,000.00	1,001,527.40		1,527.40
130480	22	18957C01	FARMER'S STAT	5.270	12/12/07	4.962	600,000.00		100.16142	5	600,000.00	600,968.52		968.52
131329	22	20905C02	GALENA STATE	5.290	7/03/07	4.935	1,050,000.00		100.03227	5	1,050,000.00	1,050,338.87		338.87
130282	22	21555C01	GERMANTOWN TR	5.210	8/06/07	4.951	400,000.00		100.04685	5	400,000.00	400,187.38		187.38
129766	22	22691C01	GUARDIAN SVGS	5.230	9/25/07	4.963	100,000.00		100.08375	5	100,000.00	100,083.75		83.75
129847	22	22806C01	FIRST NATIONA	5.220	8/02/07	4.949	100,000.00		100.00000	9	100,000.00	100,000.00		
131323	22	24556C01	HERRIN SECURI	5.300	6/03/08	4.417	500,000.00		100.86876	5	500,000.00	504,343.82		4,343.82
142636	22	24800C02	FIRST BANK OF	5.340	6/18/07	4.933	500,000.00		100.01941	5	500,000.00	500,097.04		97.04
145650	22	24800C03	FIRST BANK OF	5.290	7/03/07	4.935	500,000.00		100.03227	5	500,000.00	500,161.37		161.37
146767	22	24800C05	FIRST BANK OF	5.260	8/14/07	4.955	500,000.00		100.06165	5	500,000.00	500,308.23		308.23
131330	22	31732C01	CITIZENS COMM	5.270	9/05/07	4.962	1,000,000.00		100.08026	5	1,000,000.00	1,000,802.63		802.63
129846	22	32300C01	PEOPLES NATIO	5.280	7/05/07	4.936	100,000.00		100.03307	5	100,000.00	100,033.07		33.07
132028	22	34005C01	MIDWEST BANK	5.240	9/18/07	4.963	300,000.00		100.08176	5	300,000.00	300,245.27		245.27
137280	22	34050C02	FIRST STATE B	5.300	8/16/07	4.956	1,000,000.00		100.07140	5	1,000,000.00	1,000,713.95		713.95
132274	22	36102C03	CORN BELT & T	5.490	7/13/07	4.940	400,000.00		100.06456	5	400,000.00	400,258.25		258.25

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

S T A T E O F I L L I N O I S
O F F I C E O F T H E T R E A S U R E R
W A T E R M A R K I N V E N T O R Y

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)
*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

*** CERT OF DEPOSIT - MON INT (35) ***

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
131213	22	38106C01	OLD EXCHANGE	5.330	10/02/07	4.963	600,000.00		100.12289	5	600,000.00	600,737.36		737.36
130204	22	38553C01	BANKORION	5.310	11/09/07	4.965	1,000,000.00		100.14991	5	1,000,000.00	1,001,499.05		1,499.05
141437	22	40051C04	Pekin Nationa	5.330	6/21/07	4.933	600,000.00		100.02214	5	600,000.00	600,132.81		132.81
130629	22	41405C01	BANK OF PONTI	5.290	3/04/08	4.937	750,000.00		100.26282	5	750,000.00	751,971.13		1,971.13
131325	22	41704C01	CITIZENS FIRS	5.260	1/09/08	4.954	95,000.00		100.18283	5	95,000.00	95,173.69		173.69
131443	22	42055C01	TOWN AND COUN	5.330	3/14/08	4.934	1,000,000.00		100.30539	5	1,000,000.00	1,003,053.89		3,053.89
130283	22	42523C01	NORTH COUNTY	5.330	10/09/07	4.964	95,000.00		100.12941	5	95,000.00	95,122.94		122.94
130524	22	47827C01	STREATOR HOME	5.260	7/09/07	4.938	95,000.00		100.03433	5	95,000.00	95,032.61		32.61
129884	22	47984C01	AMER HEARTLAN	5.190	5/09/08	4.914	250,000.00		100.25336	5	250,000.00	250,633.41		633.41
129885	22	47984C02	AMER HEARTLAN	5.270	10/05/07	4.963	250,000.00		100.10509	5	250,000.00	250,262.73		262.73
130766	22	47984C04	AMERICAN HEAR	5.280	1/04/08	4.955	250,000.00		100.18976	5	250,000.00	250,474.41		474.41
131324	22	47984C07	AM HEARTLAND	5.290	3/05/08	4.937	250,000.00		100.26397	5	250,000.00	250,659.93		659.93
131881	22	47984C09	AMERICAN HEAR	5.220	5/23/08	4.909	250,000.00		100.29663	5	250,000.00	250,741.58		741.58
131882	22	47984C10	AMERICAN HEAR	5.350	11/02/07	4.965	250,000.00		100.16052	5	250,000.00	250,401.29		401.29
134484	22	47984C11	AMERICAN HEAR	5.270	8/08/07	4.952	250,000.00		100.05923	5	250,000.00	250,148.07		148.07
134485	22	47984C12	AMERICAN HEAR	5.280	1/04/08	4.955	250,000.00		100.18976	5	250,000.00	250,474.41		474.41
130248	22	48208C01	NATIONAL BNK	5.290	7/03/07	4.935	1,000,000.00		100.03227	5	1,000,000.00	1,000,322.73		322.73
130109	22	48404C01	FIRST NATIONA	5.290	11/02/07	4.965	800,000.00		100.13551	5	800,000.00	801,084.07		1,084.07
131347	22	49906C01	MARSHALL COUN	5.280	2/06/08	4.945	300,000.00		100.22399	5	300,000.00	300,671.98		671.98
149926	22	51404C02	FIRST MIDWEST	5.200	7/18/07	4.942	5,000,000.00		100.03359	5	5,000,000.00	5,001,679.37		1,679.37
						4.944	30,530,000.00				30,530,000.00	30,567,603.78		37,603.78

55 ITEMS IN SUBTOTAL FOR: CERT OF DEPOSIT - MON INT (TYPE 35)

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

STATE OF ILLINOIS
OFFICE OF THE TREASURER
WATERMARK INVENTORY

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)

*** BOOK VALUES AMORTIZED THROUGH 5/31/07 *** *** FED HOME LOAN BANK DEBENTURE (230) ***

FED HOME LOAN BANK DEBENT (230)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
148735	22	3133XJWK	FHLB	5.300	3/05/08	5.300	2,500,000.00		99.93800	1	2,500,000.00	2,498,450.00		-1,550.00
150524	22	3133XKQD	FHLB	5.300	5/07/08	5.300	5,000,000.00		99.87500	1	5,000,000.00	4,993,750.00		-6,250.00
150711	22	3133XKVP	FHLB CALLABLE	5.300	5/15/08	5.300	5,000,000.00		99.90600	1	5,000,000.00	4,995,300.00		-4,700.00
150985	22	3133XKX4	FHLB CALLABLE	5.300	5/29/08	5.300	5,000,000.00		99.90600	1	5,000,000.00	4,995,300.00		-4,700.00
150984	22	3133XL2Q	FHLB CALLABLE	5.300	5/29/08	5.300	5,000,000.00		99.90600	1	5,000,000.00	4,995,300.00		-4,700.00
						5.300	22,500,000.00				22,500,000.00	22,478,100.00		-21,900.00

5 ITEMS IN SUBTOTAL FOR: FED HOME LOAN BANK DEBENTURE (TYPE 230)

FED HOME LOAN BANKS IB NO (232)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
140642	22	3133XFZB	FHLB BULLET	5.500	6/21/07	5.500	5,000,000.00		100.00000	1	5,000,000.00	5,000,000.00		
150413	22	3133XKM5	FHLB BULLET	5.250	11/02/07	5.250	10,000,000.00		100.00000	1	10,000,000.00	10,000,000.00		
150412	22	3133XKQK	FHLB BULLET	5.250	11/01/07	5.249	10,000,000.00		100.03100	1	10,000,000.00	10,003,100.00		3,100.00
150411	22	3133XKQR	FHLB BULLET	5.250	11/01/07	5.249	10,000,000.00		100.03100	1	10,000,000.00	10,003,100.00		3,100.00
						5.285	35,000,000.00				35,000,000.00	35,006,200.00		6,200.00

4 ITEMS IN SUBTOTAL FOR: FED HOME LOAN BANKS IB NOTES (TYPE 232)

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

STATE OF ILLINOIS
OFFICE OF THE TREASURER
WATERMARK INVENTORY

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)

*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***** US Government Agency-Annual Pay (300) ***

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
						US Government Agency-Annu (300)								
147467	22	3133XJLK	FHLB	5.320	1/11/08	5.320	2,500,000.00		99.90600	1	2,500,000.00	2,497,650.00		-2,350.00
						5.320	2,500,000.00				2,500,000.00	2,497,650.00		-2,350.00

1 ITEM IN SUBTOTAL FOR: US Government Agency-Annual Pay (TYPE 300)

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
					MONEY MARKET FUNDS (9500)									
40366	22	IPTIPMMF	ILLINOIS FUND	5.040			4,286,203.93		1.00000	1	4,286,203.93	4,286,203.93		
						======	4,286,203.93				4,286,203.93	4,286,203.93		

1 ITEM IN SUBTOTAL FOR: MONEY MARKET FUNDS (TYPE 9500)

All amounts US$ except foreign par.
Encumbered if # appears after par.
Pending settlement if * after book.
Priced: 1=QMARKET,2=QUPRFL,9=COST.

DELIVER TO: POLI
PRODUCTION: 6/06/07
PROGRAM ID: Q_WATERM.TYPE
MKT-SOURCE: IDC-PREFERED+FINAL

S T A T E O F I L L I N O I S
O F F I C E O F T H E T R E A S U R E R

W A T E R M A R K I N V E N T O R Y

INVESTMENTS OUTSTANDING AS OF 5/31/07 (SETTLEMENT BASIS)
*** BOOK VALUES AMORTIZED THROUGH 5/31/07 ***

*** MONEY MARKET FUNDS (9500) ***

Pos#	Fund	Sec-Id	Description	RATE	Maturity	YIELD	POSITION-SIZE	#	PRICE	$	COST-BASIS	MARKET-VALUE	*	$-ABOVE/BELOW
=== GRAND-TOTAL ==>						5.230	1284816203.93				1284051559.48	1284056211.69		4,652.21

79 ITEMS IN REPORT TOTAL

STANDARD
&POOR'S

Fund Ratings Criteria

Fund Ratings Criteria

For the most complete and up-to-date ratings criteria, please visit
Standard & Poor's Web site at www.standardandpoors.com.

Contents

Introduction

Principal Stability Fund Ratings Criteria

Contents (continued)

Principal Stability Fund Ratings Criteria (continued)

Liquidity Assessments

Appendix

Process & Overview

A Standard & Poor's Ratings Services rating is based on principles of independence, integrity, and disclosure—the same standards that underlie market confidence and acceptance of our ratings by investors worldwide. Our processes are designed to ensure that our rating opinions are based on consistently applied quantitative and qualitative analytic criteria.

Since 1984, Standard & Poor's has assigned principal stability fund ratings, credit quality ratings, and volatility ratings to fixed-income funds globally, including mutual funds, money market funds, enhanced cash funds, preferred trusts, government investment pools, separate accounts, exchange traded funds, hedge funds, and unit investment trusts. The goals of our analysis are to uncover risk sources in a managed fund's portfolio and investment strategies and to assess the potential impact on its ability to meets its objectives.

Principal Stability Fund Ratings

A Standard & Poor's Principal Stability fund rating, also known as a money-market fund rating, is a current opinion of a fund's capacity to maintain stable principal or net asset value. When assigning a Principal Stability rating to a fund, we evaluate the creditworthiness of a fund's investments and counterparties, the market price exposure of its investments, sufficiency of the fund's portfolio liquidity, and management's ability and policies to maintain the fund's stable net asset value by limiting exposure to loss. In our view, funds that seek to maintain a stable net asset value should be managed conservatively with well-defined guidelines and investment policies (for example: within SEC Rule 2a-7 guidelines) with regard to average maturity, credit quality, and liquidity. Funds managed outside of these guidelines can or may be rated on the Fund Credit Quality and Volatility Scale.

Principal Stability fund ratings express our opinion regarding a fund's ability to maintain principal stability and to limit exposure to losses due to credit, market, and/or liquidity risks. The rating categories range from 'AAAm' (extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks) to 'Dm' (failure to maintain principal stability resulting in a realized or unrealized loss of principal). The 'm' distinguishes the Principal Stability fund ratings from Standard & Poor's traditional debt ratings, which are usually not subscripted and which indicate a borrower's ability to repay principal and interest on a timely basis. A Principal Stability fund rating is not directly comparable to a debt rating because of differences in investment characteristics, rating criteria, and the creditworthiness of portfolio investments.

Fund Credit Quality Ratings

Standard & Poor's Fund Credit Quality ratings are assigned to all types of fixed-income funds or portfolios with fluctuating or variable net asset values, including bond funds, local government investment pools, unit investment trusts, preferred shares trusts, cash enhanced funds, and fixed-income hedge funds, among others. Our fund credit quality ratings are identified by the subscript 'f' for "fund" and represent our assessment of the overall credit quality of a fund's portfolio holdings. The fund credit rating reflects the level of protection that the fund's portfolio provides against losses from credit defaults. Rating categories range from 'AAAf' (highest protection against losses from credit defaults) to 'CCCf' (extremely vulnerable to losses from credit defaults).

Fund credit quality ratings capture a fund's overall exposure to default risk and are based in part on an assessment of a fund's current credit exposure based on a credit matrix scoring approach derived from Standard & Poor's historical default and ratings transition rates, and on the manager's credit management process.

Fund Volatility Ratings

Volatility ratings offer our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings range from 'S1' (lowest volatility) to 'S6' (highest volatility), and are based on an analysis of a fund's investment strategy and portfolio level risk, including interest-rate risk, credit quality, liquidity, concentration, call and option risk, and currency risk. The effects of various portfolio strategies, such as the use of leverage, hedging, and derivative instruments, are also factored into the rating. We also evaluate a fund's historical return volatility against government benchmarks. A fund volatility rating is a current opinion of a fixed-income fund's sensitivity to changing market conditions relative to the risk of a portfolio composed of government securities and denominated in the base currency of the fund.

Fund Ratings Process

The following is a step-by-step guide to how the Standard & Poor's fund rating process works.

The rating request.

All ratings are issued on a request basis. When an organization requests a fund rating, a Standard & Poor's fund rating analyst is assigned to lead the rating team, which is composed of a lead analyst, back-up analyst, and surveillance analyst, and he or she schedules a meeting with management. Fund management provides pertinent information for the ratings analysis, including, but not limited to the fund's prospectus, statement of additional information, approved list of investments, historical net asset values, historical weighted average maturity/duration, asset size history, shareholder information, a current portfolio holdings report, an organizational chart of senior fund officials, and biographies of key fund personnel.

(For more information on the items required on a new rating, please refer to the Fund Ratings Criteria Book articles on Principal Stability Fund Ratings and Fund Credit Quality and Volatility Ratings, published on RatingsDirect.)

The management meeting.

After receiving the initial rating request, the analysts meet with senior fund management officials generally at their offices to evaluate the effectiveness of fund management in implementing a portfolio strategy that is consistent with its stated investment goals. The meeting is focused on the history of the fund, investment objectives and strategy, management's investment philosophy, depth and stability of the fund management team, credit risk management, maturity/duration profile, pricing policy, risk preferences including use of leverage, operating policies, internal controls including oversight of fund management, and disaster recovery.

(For more information on the suggested agenda of a management meeting, please refer to the Fund Ratings Criteria Book articles on Principal Stability Fund Ratings and Fund Credit Quality and Volatility Ratings, published on RatingsDirect.)

Standard & Poor's review and analysis.

Once we have held the management meeting, the lead analyst reviews and analyzes the information obtained and presents the fund to a rating committee. The initial review process usually takes a few weeks.

The rating committee meeting.

A Standard & Poor's rating committee is composed of senior fund rating analysts, including the primary analyst, who votes on the fund's rating(s).

The call to the organization.

Following the rating committee, the lead analyst communicates the rating committee outcome to the company.

The appeal period.

After Standard & Poor's has announced the committee's decision to the organization, the organization has a brief time in which it may appeal the rating—but only if it can offer substantive, material information not previously available to the committee. The committee's final decision is then announced to the organization. Ratings are released publicly unless the fund company has chosen to keep the initial rating confidential.

The press release.

Standard & Poor's will release the rating, unless the fund company has chosen to keep the initial rating confidential.

A press release is sent to the media, announcing the fund's rating and the rationale for the rating.

Ongoing surveillance and annual reviews.

A condition for maintaining the rating is the submission of timely surveillance reports that include portfolio holdings and a completed surveillance summary worksheet. We maintain surveillance on all funds we rate—weekly for principal stability fund ratings and monthly for fund credit and volatility ratings. If there is a specific event that Standard & Poor's perceives might have an effect on the rating, we review it immediately. Fund analysts maintain frequent contact with the portfolio management team throughout the year. We conduct annual, generally on-site fund management review meetings for all rated funds. Fund Profile rating reports are updated at least twice a year.

(For more information on required surveillance information, please refer to the Fund Ratings Criteria Book articles on Principal Stability Fund Ratings and Fund Credit Quality and Volatility Ratings, published on RatingsDirect.)

Conclusion

This article is intended to outline Standard & Poor's Fund Rating Process. Full documentation of the criteria used to assign principal stability, credit quality, and fund volatility ratings can be found at standardandpoors.com.

When conducting our analysis, we judge each fund and its management on its own merits as there are no "model" funds. The important issue is how the fund is managed. Policies and strategies may differ from fund to fund, but the degree to which management has control over them should not. We closely examine the daily operations of the fund, including organizational structure and depth, the degree of oversight and accountability, particularly in the portfolio and risk management areas. It should be stressed that lower ratings within the investment-grade rating categories (down to 'BBBm' and 'BBBf') do not indicate that there is something "wrong" with a fund, but simply that the fund's strategy incorporates a slightly higher degree of risk.

Ratings definitions, ratings criteria, and related news and articles, as well as contacts and contact information related to Standard & Poor's fund ratings can be found at www.standardandpoors.com. ■

Credit Quality

When evaluating a fund's credit quality, Standard & Poor's Ratings Services examines the risks associated with the quality, type, and diversification of the securities in each fund's underlying portfolio. The credit quality assessment for each instrument is generally based on the credit rating we have assigned to the security. The minimum credit quality standards for each fund are based on the fund's desired rating and maturity structure of its portfolio.

For funds rated 'AAAm', all securities should either carry a Standard & Poor's short-term rating of 'A-1+' or 'A-1' or be deemed to be of equivalent credit quality by Standard & Poor's. A minimum of 50% of the portfolio should be composed of 'A-1+' rated instruments or those we deem equivalent in credit quality. 'AAm', 'Am', and 'BBBm' ratings criteria allow for holdings in 'A-2' quality securities with overnight maturities and provide for increased percentages of 'A-1' exposure. The percentages reflect acceptable levels of credit risk for the different fund rating categories and are based on our historical default and ratings transition rates for short-term debt securities. Additionally, securities rated 'A-1' or equivalent by Standard & Poor's that are on CreditWatch with negative implications should be limited to maturities of 30 days or less. Investments rated 'A-1' and maturing in seven days or less can be counted toward the 'A-1+' percentage minimums, as historical default rates of 'A-1' paper maturing in less than one week are similar to the default rates of 'A-1+' issuers.

Principal Stability Fund Ratings Definitions And Criteria Summary Table

A principal stability rating (also known as a money market fund rating) is not directly comparable with a bond rating due to differences in investment characteristics, rating criteria, and creditworthiness of portfolio investments. For example, a money market fund portfolio provides greater liquidity, price stability, and diversification than a long-term bond, but not necessarily the credit quality that would be indicated by the corresponding bond rating. Ratings are not commentaries on yield levels. A principal stability rating is not a recommendation to buy, sell, or hold the shares of a fund. Furthermore, the rating may be changed, suspended, or withdrawn as a result of changes in or unavailability of information related to the fund.

Credit quality criteria are based on the results of our internal study on the stability of short-term ratings. Using a combined analysis of the yield spread movements resulting from changes in the underlying credit quality of principal stability instruments and the data derived from our historical ratings performance study, we have developed credit quality investment guidelines for rated funds to maintain a consistent level of credit risk within each fund rating category.

Standard & Poor's Global Fixed Income Research team released its first short-term default study on March 27, 2006. The Funds Ratings Group utilized this data to reassess the current 'A-1+', 'A-1', and 'A-2' composition rules, maintained by Money Market Funds that we rate. Drawing on the average two-month transition tables with data through the end of 2005, the Funds Rating Group conducted multiple analyses of historical defaults and downgrades.

Stress tests were run to assess whether it would be prudent to reallocate the percentages for the 'AAAm' rating. Drawing from tables 1 and 2 below, if 100% of the securities are allocated to the 'A-1' rating, the risk of a downgrade in the U.S. increases by 80% (to 1.222% from 0.680%) and the risk of default in the U.S. increases by 63% (to 0.010% from 0.006%). Similarly, the risk significantly increases in the Global and European Union regions. Such shifts in the downgrades and defaults, in our opinion, do not necessitate changing the current allocation of a 50% 'A-1+', 50% 'A-1' credit breakdown. Furthermore, these criteria have been in place for about eight years now, including a period of above-average downgrades and defaults, representing a solid test period.

The Funds Rating Group will maintain the credit quality guidelines for the money market ratings categories as they currently stand. The current asset allocation guidelines are as follows:

For 'AAAm' ratings, 50% minimum in 'A-1+' (or equivalent) rated investments, with the remaining balance in 'A-1' (or equivalent) rated investments. Investments rated 'A-1' maturing in seven days or less are grouped with 'A-1+' rated investments.

For 'AAm' ratings, no less than 20% in 'A-1+' rated investments, with the remaining balance in 'A-1' rated investments. Provided the portfolio has the required 20% in 'A-1+' investments, up to 5% of the portfolio can be invested in 'A-2' rated investments maturing overnight.

For 'Am' ratings, funds can be fully invested in 'A-1' investments and up to 10% of the portfolio can be placed in 'A-2' investments maturing overnight.

In most cases, diversification guidelines are similar to those mandated by regulation and apply to both taxable and tax-exempt money funds. (For example: Rule 2a-7 of the

Table 1 Downgrade Summary

Money fund rating (%)	A-1+	A-1	A-2	Global	United States	European Union (15)
AAAm	50	50	0	0.717	0.680	0.788
AAm	20	80	0	1.080	1.005	1.221
Am	0	100	0	1.322	1.222	1.509

Source: Standard & Poor's Funds Rating Group Research.

Table 2 Default Summary

Money fund rating (%)	A-1+	A-1	A-2	Global	United States	European Union (15)
AAAm	50	50	0	0.004	0.006	0.000
AAm	20	80	0	0.006	0.009	0.000
Am	0	100	0	0.007	0.010	0.000

Source: Standard & Poor's Funds Rating Group Research.

Investment Company Act of 1940 is the primary section of regulation that governs U.S. domestic money funds.) Generally, 5% diversification limits are in place for corporate, bank, and other money market securities with maturities beyond overnight, although U.S. government securities and certain other exceptions made for offshore/European funds are not subject to the 5% rule. (Please refer to "Principal Stability Fund Rating Criteria for Offshore and European Money Market Funds" on RatingsDirect.) Additionally, we have established specific credit quality standards and diversification criteria for repo providers and government agency issues, among other things. These criteria can be found in the relevant sections of the Funds Rating Criteria Book. *(See Appendix: Principal Stability Fund Ratings Definitions and Criteria Summary Table page 73)*

Regulation Versus Ratings

In 1983, Rule 2a-7 of the U.S. Investment Company Act of 1940 had been formally amended several times, and there have been numerous interpretive releases and exemptive orders with regard to 2a-7 rules issued by the SEC during the past few decades. Rule 2a-7 was established to limit risks money market funds can take in an effort to provide investors safety of principal and liquidity.

Standard & Poor's principal stability ratings assigned to money market funds address a money fund's ability to maintain principal stability and to limit exposure to principal losses, but there are significant differences between the minimum standards required by Rule 2a-7 and ratings criteria for the highest rating categories set by Standard & Poor's. In fact, a fund that meets the minimum regulatory requirements would at best qualify for a 'BBBm' rating from Standard & Poor's. The ultimate rating could be even lower depending on the fund's cash flow patterns and liquidity management, management experience and controls, investments and parameters, and current marked-to-market net asset value (NAV) policies.

Our ratings criteria and approach differ from Rule 2a-7 guidelines in regard to a fund's weighted average maturity, credit quality, eligible floating rate securities, defined limited liquidity securities, and repurchase agreements (repos). Rule 2a-7 allows for a maximum of 90 days weighted average portfolio maturity (WAM). There is a common misconception that this is a blanket endorsement for a 90-day WAM; however, this is not the case. The rule states that a fund's WAM should be at an appropriate level to maintain a stable NAV, but should never exceed 90 days. This implies that funds with less liquid assets, a concentrated shareholder base, or containing interest rate-sensitive securities should seek to control interest rate sensitivity and maintain higher levels of liquid assets to therefore keep lower WAM levels.

The highest rating that a money market fund having a 90-day WAM can get from Standard & Poor's is 'Am'. Our analysis of a money market fund's interest rate sensitivity shows that a fund with a 90-day WAM could break the dollar as a result of an instantaneous interest rate rise of 205 basis points, without considering account shareholder subscriptions or redemptions. Higher rating categories require lower-weighted average maturities with 'AAAm' guidelines set at a maximum of 60 days.

Rule 2a-7 delineates minimum credit quality standards for money market funds. A taxable money fund must have at least 95% of its assets invested in first-tier securities. A first-tier security is defined as being in the highest rating category of at least two nationally recognized statistical rating organizations (NRSROs) or deemed equivalent by the fund's adviser. The remaining 5% may be in second-tier securities (rated in the second-highest rating category by two NRSROs or deemed equivalent by the fund's adviser). First-tier securities (excluding government securities) are limited to a 5% issuer diversification maximum. Issuer concentrations are limited to 1% for second-tier securities. Other exceptions are made for tax-exempt money market funds.

Our criteria for 'BBBm' ratings are more in line with Rule 2a-7 minimum standards. Higher rating categories require a higher percentage of 'A-1+' rated securities, while lower-quality or second-tier securities are eligible for ratings below 'AAAm' if the securities mature in one day. The SEC recognizes Standard & Poor's 'A-1' short-term rating category as first-tier. Standard & Poor's, however, uses a plus (+) symbol to indicate relative strength within the 'A-1' category. Criteria for all ratings outline minimum acceptable percentages of Standard & Poor's rated securities. Rule 2a-7 does not distinguish between 'A-1' and 'A-1+' ratings.

According to Rule 2a-7, the credit quality of a repo is determined by that of the securities underlying the agreement, provided that the collateral qualifies for preferential treatment under the Federal Deposit Insurance Act or the Federal Bankruptcy Code. Since repos typically involve government securities, no diversification requirements apply. Our rating criteria look to the creditworthiness of the repo counterparty. Eligible repo providers include 'A-1+' or 'A-1' rated providers, or those deemed to be of equivalent credit quality.

Master-Feeder Funds

Standard & Poor's evaluates master-feeder funds, which are sometimes referred to as Hub and Spoke® (a patented term marketed by Signature Financial Group Inc.), much in the same way it evaluates other rated funds. Master-feeder structures were created for fund sponsors and managers to capture the efficiencies of larger portfolios of assets, while providing a product to smaller fund clients. In the master-feeder structure, the feeder fund conducts essentially all of its investing through the master fund. Feeder funds have matching investment objectives, and assets of each feeder fund are held in the master fund. This allows each feeder fund to be sold separately with separate fee structures to individual target markets, allowing them to benefit from economies of scale of funds invested in the larger master fund.

When evaluating master-feeder funds, we assign ratings to the master portfolio, since the master holds underlying securities of the feeder fund. We will also assign fund ratings to individual feeder funds that are part of the master fund structure when requested by the fund sponsor. As with all principal stability fund ratings assigned by Standard & Poor's, master-feeder funds are subject to an evaluation of the creditworthiness of a fund's investments and counterparties, the market price exposure of its investments, sufficiency of the fund's portfolio liquidity, and management's ability and the controls it establishes to maintain the fund's stable NAV by limiting exposure to loss. ■

Management

Understanding the strengths and weaknesses of fund management is essential to any analysis of a managed portfolio rating. The ratings process for principal stability or money market funds includes a meeting between fund officials and Standard & Poor's credit rating analysts to review fund investment objectives, portfolio management techniques, and risk aversion strategies. When assessing a fund for a rating, our team evaluates the effectiveness of fund management in implementing a dynamic investment process consistent with the fund's stated goals and objectives.

We believe that these meetings are instrumental in providing an appropriate fund rating service. A management assessment considers the following aspects of portfolio management: experience and track record in portfolio management, operating policies and risk preferences, credibility and commitment to policies, and the extent and thoroughness of internal controls and commitment to oversight. We judge each fund management team on its own merits. The meeting focuses on the way the fund is managed in relation to its shareholder base and stated investment objectives. We closely examine the daily operations of the fund, including organizational structures, breadth and depth of staff, and adequacy and level of investment controls. The following sections describe the key considerations in our analysis of fund management.

Experience

Because money market funds only allow for a 0.5% margin of error, they require skilled financial professionals to manage them. An experienced fund manager with a proven track record in money market funds greatly enhances a fund's safety. This manager does not necessarily have to make every investment decision, but should be closely involved in fund oversight. Under strict guidelines, it may be acceptable for less experienced personnel to execute trades and make certain investment decisions. Nevertheless, an experienced money market fund manager should monitor all trading and investment activities daily.

It is also necessary to distinguish between an experienced money market fund manager and someone who has experience managing long-term investments. Managing a stable net asset value (NAV) fund is very different from managing a fund with a variable share price. Investment policies and strategies that may be prudent for funds with fluctuating NAVs can be disastrous for money market funds. The precision necessary to run a successful money market fund takes a different mindset than one that is required for managing other fixed-income vehicles. An experienced fixed-income manager does not necessarily make an effective money market fund manager. Therefore, we emphasize an individual's level of experience managing stable NAV funds. A lack of experience can result in no rating, a lower rating, or could possibly necessitate more stringent controls such as operating at a shorter weighted average maturity (WAM).

Operating Procedures And Risk Preferences

We evaluate the fund manager's operating procedures specific to each fund requesting a principal stability rating. A key component of this review is the investment decision-making process. Numerous investment decisions are made daily for all money market funds. We examine how these decisions are made and who is responsible for executing them.

Fund advisers who conduct frequent investment committee meetings to arrive at both short-term and intermediate-term investment strategies are viewed more favorably than those who leave investment strategy decisions strictly up to the fund manager. This helps prevent any one individual from having an inordinate amount of influence on the strategy of a fund. A key role of an investment committee is to set investment guidelines and strategies. The portfolio managers then have the job of executing these strategies using their expertise in managing money market funds.

We also focus on the amount, type, and quality of information used in making policy and investment decisions. This includes the size and capabilities of the credit and risk research staff, the access to current economic data and analysis, and the types of on-line business information services used. All fund prospectuses contain investment policies that fund advisers must follow. These policies tend to be quite general, typically mimicking regulation, and thereby giving fund managers considerable investment leeway. It is prudent for fund advisers to establish written internal procedures to clearly define both the fund's investment guidelines and the manager's operating policies.

Funds also benefit from having clear and explicit investment policies regarding the use of variable-rate notes, structured notes, and derivative instruments and other securities that are difficult to liquidate. Fund investment policies should incorporate procedures on the approval, risk measurement, control, and limits related to these less liquid securities. Fund managers should be able to present an analytical basis for determining whether such securities are eligible for the fund, and that these investments will remain at or be repriced to their amortized cost value at each reset until maturity. This analytical basis should include a review of historical index behavior and sensitivity analysis.

Policymaking responsibilities for any mutual fund ultimately lie with its board of directors or trustees. The board is elected by fund shareholders to oversee their investments and fund management. Boards entrust investment advisers to handle the funds' daily affairs, but should not rely on the advisers to always act in the best interest of the shareholders. The contracts that boards establish with investment advisors for management of the fund are based on a percentage of fund assets. Therefore, it is beneficial for advisers to attract money into their funds. Historically, high returns have been a way to attract more assets. Nevertheless, higher returns are also associated with greater risks. Boards must establish investment policies that are strict enough to prevent fund advisers from taking risks that are not in the best interest of the shareholders. They must also establish stringent procedures for reviewing and enforcing these policies.

Board members are not necessarily investment professionals and may lack expertise in money market fund management. Still, a board should act as an independent body, and demand that advisers be able to clearly explain all investments and investment strategies. We feel that boards should receive detailed reports regarding fund investments and activities at least on a monthly basis. Boards should be aware of fund activities throughout the year, not just at quarterly meetings. All too often, boards are passive or lack the independence necessary to effectively do their jobs. This leads to rubber-stamp approval of investment adviser activities. Such boards are not fulfilling their responsibility to fund shareholders.

Investing, by definition, is risk-taking. Investment advisers are paid to take risks commensurate with the desires of fund shareholders. It is impossible to eliminate risk in money market funds and still provide adequate returns on investments. Even the most conservatively managed fund can be in jeopardy of breaking the dollar if there are sufficiently adverse market conditions. Fund managers differ in their risk preferences, as they should. Conservative and aggressive investment strategies can be effective, provided that the proper operating procedures are in place to ensure that these strategies are consistent with prudently established guidelines.

Internal Controls

Money market funds universally have the investment objective of maintaining a constant or accumulating NAV per share. We consider strong internal controls of fund advisers a key determinant in rating a fund. Included below are commentaries on pricing policies, NAV deviation procedures, depth-of-staff analysis, stress-testing capabilities, asset-flow monitoring, trade ticket verification, systems backup requirements, levels of oversight, and disaster recovery.

Pricing policies and NAV deviation procedures

Accurate pricing is a key factor in maintaining a stable NAV. We expect all investment advisers to be capable of accurately pricing portfolio securities, as well as periodically calculating a fund's actual NAV in-house. Not only must investment advisers be able to calculate NAV, but they also need to have explicit written plans for dealing with any material deviation. Investment advisers and the fund's board are responsible for establishing NAV deviation procedures. Regulation dictates that action must be contemplated if a fund's NAV deviates by more than 0.5% from $1.00. Our principal stability fund ratings specifically address the likelihood of this deviation occurring. Therefore, we expect rated funds to have written policies that initiate action long before the point of deviation. At a minimum, these policies should dictate action at a 0.25% deviation. In this case, fund managers should be required to meet with senior fund officials, notify board members, and establish a formal action plan. All portfolio managers should be highly familiar with these NAV deviation procedures and should not rely on a third-party administrator for implementation. Since it is in the best interest of the adviser to be proactive in dealing with NAV deviations, we request fund advisers price the portfolio and calculate NAV daily (marked to market) when deviations reach the following for each specific rating category: 'AAAm' 0.15% (.9985/1.0015), 'AAm' 0.20% (.9980/1.0020), 'Am' 0.25% (.9975/1.0025), and 'BBBm' 0.30% (.9970/1.0030).

Depth and adequacy of staff training

It is also important that fund controls are maintained when the primary portfolio manager is not managing the fund, as substitute managers may not have the same level of investment experience as the primary manager. Nevertheless, it is inexcusable to lack the necessary controls for preventing mistakes when the primary manager is unavailable. Each member of the investment adviser's staff, with the authority to manage the fund on a temporary basis, should be adequately trained in the investment policies and guidelines for those funds. In addition, a set of procedures should be in place to automatically review the work of a substitute portfolio manager for each day that the substitute manager oversees the fund(s).

Stress-testing capabilities

Fund managers should also be reasonably prepared to handle the unexpected. This entails the ability to perform "what if" and stress-test analyses. A fund manager should be able to calculate the impact of the purchase of any security on the fund's WAM. This calculation should reflect the influence of sudden or unexpected redemption occurring in conjunction with the security purchase. In addition, fund managers should have the ability to stress-test both individual securities and entire portfolios. Tests for individual securities should estimate price sensitivity under severe interest rate movements. Portfolio testing should stress the fund's assets in aggregate under the same interest rate scenarios, but should also measure the impact of dilution on NAV, assuming sizable redemption activity. The magnitude of the potential redemption activity used in testing should consider historical redemptions and the nature of the shareholder base. Funds with interest rate-sensitive, institutional investors need to stress-test redemptions at much higher levels than funds with typically more stable retail investors.

Asset-flow monitoring

Redemption volatility adds to the difficulty of managing a money market fund. Immediate liquidity is a key element in the growth and popularity of money market funds. Investors like having quick access to their money. Yet, the uncertainty created by instant liquidity can make it difficult to employ a consistent investment strategy. Funds with very volatile shareholder accounts are subject to the greatest risk. It is nearly impossible to accurately predict cash inflows and outflows, but fund managers can take steps to prepare for them. Some of these steps include constant communication with a fund's largest shareholders to get indications of redemptions. It will also help fund managers remain informed of how long large deposits are expected to stay in the fund, so managers can invest accordingly. Some funds have policies that encourage prior notification of large withdrawals. Other funds will refuse "hot money," which is money from investors who will subscribe in and out of the fund based on interest rate movements. Hot money tends to leave a fund quickly in rising interest rate environments, causing dilution to NAV and potentially harming the remaining shareholders. Fund managers should be very familiar with the redemption patterns of their largest investors. This facilitates the management of cash flow volatility, thus enhancing fund safety.

Trade ticket verification

Proper controls also entail trade ticket verification. All trade tickets should require two signatures, one belonging to the individual executing the trade, and the other to a portfolio manager or senior level member of the investment advisory staff. In addition, it is beneficial to have a computer system tailored to regulate the investment parameters of each fund. In such a portfolio management system, unauthorized investments would be rejected, immediately alerting portfolio managers to the mistake. These systems can also do the same for purchases that cause a fund's WAM to exceed established limits. In addition, we view pretrade compliance modules favorably, whether they are in-house or off-the-shelf systems. These systems prohibit portfolio managers from exceeding trade limits prior to making any purchases, significantly reducing the risk of trading errors.

Disaster recovery

Computer systems are vital to managing mutual funds. In our review of a fund's controls, all backup computer capabilities are examined. System failure should never shut down a mutual fund, as shareholders expect access to their money. All computer processes for a fund should be replicated on another system, usually with a custodian or administrator. Fund advisers should backup data nightly to an offsite location. It is also important to have detailed contingency management and disaster recovery plans that are tested periodically. Earthquakes in Los Angeles and San Francisco, floods in Houston, and hurricanes hitting Florida are just a few past examples of situations in which emergency action plans had to be executed.

SEC Post-Examination Letters

All rated funds that are registered under Rule 2a-7 of the Investment Company Act of 1940 must submit a copy of the latest SEC post-examination letter and the investment adviser's response to our company. If no letter has been received, fund counsel must provide representation indicating no letter was received from the SEC. As part of our monitoring of money fund ratings, we request such information annually. SEC letters are requested even if the letter addresses other money funds managed by the same adviser and not the rated fund specifically. We rate money market funds based on representations from fund advisers and do not perform an audit. When an audit is performed, as in the case of the SEC examination, we believe that the outcome of the audit can provide important insight into the daily operations of the adviser, which may ultimately affect fund safety.

Fund Governance

Since news of fund-industry trading scandals emerged in Sept. 2003, the SEC has sued more than a dozen of the 25 largest mutual fund complexes, and proposed a variety of rules to clean up abuses such as late trading and market timing, or the rapid buying and selling of fund shares that can lower performance at the expense of long-term fund investors. Some of the SEC's proposed reforms include mandating a redemption fee on short-term trading in mutual funds, and amending Rule 12b-1 to prohibit mutual funds from paying for distribution of their fund shares with brokerage commissions. This would impose a mandatory fee on short-term transactions; necessitate disclosure (in dollar terms) of fees and expenses that shareholders pay; and require 75% of fund directors, including the chairman, to be independent of the fund management company. The NASD formed a task force to look at certain fund issues including directed brokerage and soft dollar arrangements,

Information Needed For A Principal Stability Fund Rating

- Letter requesting our rating;
- The most recent prospectus, statement of additional information, and any marketing materials;
- A copy of the most recent annual report;
- A copy of the fund's investment policy, including policies concerning asset eligibility, selection, and evaluation process;
- Policies regarding repurchase agreements, including a copy of the master repurchase agreement(s) and legal representations;
- Policies concerning use of forward commitment contracts to buy and sell securities;
- Policies on leveraging portfolio assets;
- Frequency and method of securities pricing, reporting, risk controls, and oversight process;
- Historical variation between marked-to-market pricing and amortized cost evaluation in terms of share price, monthly, for the past three years (or since the fund's inception if less than three years old);
- Explanation of any material deviation in the share price from $1.00 during the past three years;
- Range of weighted average portfolio maturities for each month during the past three years;
- Redemption history on a monthly basis for the past three years, reflecting gross purchases and gross redemptions;
- Proposed/current mix of shareholders (e.g., retail, institutional), and percentage of fund shares held by largest 10 shareholders;
- Current asset size or proposed asset size;
- Current list of portfolio holdings or for new funds, a hypothetical portfolio with security descriptions, ratings, CUSIPs, and prices;
- List of securities approved for purchase according to asset type, credit quality, maturity, and sector;
- Level of insurance coverage (Fidelity Bond, Error and Omission, Director and Officer);
- A copy of the most recent SEC post-examination letter and fund advisers' response letter;
- Biographies and organizational chart of key fund employees; and
- Background materials on sponsor, company structure, and related companies.

revenue sharing, and 12b-1 fees, which funds may charge investors to recoup marketing costs. The NASD does not regulate mutual funds, but oversees brokers who sell them.

Suggested Agenda For Principal Stability Fund Rating Management Meeting

Overview

1. Brief history of the fund
   - Primary constituency
   - Growth patterns
   - Fund performance for the past three years (if applicable)

2. Basic philosophy
   - Investment and marketing strategy
   - Operating controls
3. Organization
   - Staff size and function
   - Role of board of directors and sponsors
   - Primary functions of key officers

Credit risk

1. Credit quality of eligible investments
   - How approved list of eligible investments is determined;
   - What the approved list includes;
   - When and by whom approved list can be modified;
   - Comparison of eligible and actual investments;
   - Criteria for creditworthiness;
   - Credit evaluation system; and
   - Degree of reliance on our credit ratings.

2. The effect of the public rating on eligibility for investment

3. Policies on repos
   - Eligible sellers/repurchasers
   - Underlying securities
   - Degree of overcollateralization
   - Perfection of first priority security interest

4. Diversification/concentration
   - Investment mix allowances by type
   - Investment mix allowances by credit quality
   - Maximum individual holdings by issuer, affiliates, and credit support provider

Market price risk

1. Maturity
   - General posture on weighted average portfolio maturity and maturity distribution;
   - Basis for extending or shortening weighted average portfolio maturity; and
   - Historical maximums and averages of portfolio maturity.

2. Liquidity
   - Posture on portfolio mix
   - Portfolio mix and its change with market conditions
   - Policy regarding illiquid securities
   - Put agreements (if any)
   - Other secondary market considerations

3. Redemption experience
   - Recent experience and assumptions relating to maturity structure, if any
   - Receipts versus redemptions
   - Largest weekly redemptions
   - Recent changes in general operations, if any
   - Shareholder base and account characteristics

Pricing policy

1. Accounting method
   - System and its use
2. Frequency of marking portfolio to market
3. Triggers for management action and actual examples

Operating scenarios

1. Use of securities lending and forward commitment transactions, and accompanying risk management policies
2. Circumstances under which a fund would extend average maturity beyond normal guidelines or alter credit quality

3. Trends in interest rate changes and tolerance of fund assets.

Controls

1. Daily modus operandi with respect to investments
   - Procedures for assuring timely purchases and redemptions of shares and timely liquidation of investments;
   - Computer applications, adequacy of computer facilities, and computer backup provisions; and
   - Fidelity bond coverage, errors and omissions insurance, and other liability protection
2. History of any previous back-office problems
3. Time needed to meet shareholder redemption requests
4. Methods of monitoring investments and approved list
5. Disaster recovery procedures

Fund governance

1. What compliance procedures are in place for the fund and fund management?

2. How often are they reviewed and updated?

3. Is there a defined risk management process in place to ensure funds are managed within their objectives and established risk parameters?

When rating funds for principal stability, we consider strong fund governance essential to managing a rated fund. When analyzing fund management, our fund ratings personnel question fund management in areas such as compliance, investment oversight, and risk management strategies. A sample of the questions considered includes the following:

- Is there a compliance manual available?
- How often are compliance policies reviewed and updated?
- Who does the Compliance Officer report to in the organization? Is the Compliance Department separate from portfolio management, sales, and marketing?
- What policies are in place for investments or trading by internal investment managers and the analytical staff, and how are they monitored?
- Are written policies and procedures communicated to staff and signed annually (i.e., a Code of Ethics)?
- How does senior management (the CEO and Chief Investment Officer) provide for an appropriate culture to ensure that compliance is viewed as a priority and enforceable?
- Is there a defined risk management process in place to ensure that funds are managed within their objectives and established risk parameters?
- Is there fund portfolio and trading oversight by compliance personnel?
- How are large investments in funds monitored and how much clarity is there on omnibus accounts? ■

Weekly Information Needed To Monitor A Principal Stability Fund Rating

1. Complete Portfolio Surveillance Information Sheet (see attached sample coversheet)

2. Portfolio Holdings Report
   For each security provide:
   - Par value
   - Current market value
   - CUSIP number
   - Full description of investment including issuer, interest rate, and maturity date
   - Type of investment
   - Insurer or LOC provider, if applicable
   - Percent of portfolio
   - Standard & Poor's rating
   - Terms of floating-rate notes (reset formulas and frequencies)
   - Identification of non-traditional repo, funding agreements, credit-linked notes, extendible notes, and other esoteric securities

3. Other Portfolio Activities
   Please provide information on all transactions related to the fund such as:
   - Repos (include counterparty, underlying collateral, and terms);
   - Reverse repos (include counterparty, underlying collateral, and terms);
   - Dollar rolls;
   - Futures (list trading exchange); and
   - Securities lending program (include list of securities lent out as part of program).

4. Fund changes or news
   Any additional information related to the fund's operation should be forwarded such as:
   - Changes to the investment management team;
   - Changes in investment policies or operating procedures;
   - Current prospectus and statement of additional information;
   - Notification of changes to prospectus or statement of additional information;
   - Notification of fund name change or mergers;
   - Notification of changes in board of directors, senior management, investment adviser, or custodian;
   - Annual and semiannual reports; and
   - All press releases relevant to the fund.

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Funds Data Collection System

☐ Tools ☐ Account Maintenance

55 Water St., 33rd Floor, Fund Services—Surveillance
New York, New York 10041
General Telephone: 212-438-5073, Fax: 212-438-5075

Surveillance Requirements for Principal Stability Fund Ratings (Money Market Ratings)

S&P Surveillance
Analyst: Name Telephone 212-438-XXXX
Email: first_last@standardandpoors.com

Name of Fund: Some Fund

Portfolio Date: 1/31/2007

Please Attach Portfolio Holdings Information

Contact Information

Name:	Some	Person
Company:	Some Company	
Tel:	555-555-5555	
Email:	someperson@someemail.com	

Weighted Average Maturity (WAM) (for each day of the week)

Date:	1/31/2007	1/30/2007	1/29/2007	1/28/2007	1/27/2007
WAM:					

Please enter dash (-), if WAM is not applicable and provide comments at the end of the form.

Fund Summary

7 day Yield (at least 2 decimal places):	0.00
30 day Yield (at least 2 decimal places):	0.00
Total Amount of Shares Outstanding:	50,000,000
Net Assets (US$, in millions):	50.0
Gross Assets (US$, in millions):	50.0
Greatest Net Redemption for the Week (US$, in millions):	0.00
Net Asset Value (per share) (at least 5 decimal places):	1.000000

Security Types (%)

Agency Fixed Rate	
Agency Floating Rate	
Certificate of Deposit	
Commercial Paper	
Corporate Fixed Rate	
Corporate Floating Rate	
Master Note	
Repurchase Agreement	
Time Deposit	
US Treasury Bill	
US Treasury Note	
Update Total	0.00

Add Security

S&P Ratings (% of Gross Assets

A-1+ Short-Term Rating	100.00
A-1 Short-Term Rating	
Update Total	100.00

Add Rating

Derivatives/Leveraged Positions (% Net Assets)

Please provide a separate list of the above transaction including amount, counterparty and exchange.

Futures	
Reverse Repo	
Securities Lending	
Uncovered Dollar Rolls	

Illiquid/Limited Liquidity Exposure (%)

Please include illiquid/limited liquidity securities on the portfolio holdings report attached

Any of the following that do not possess unconditional puts within 7 days

Extendible Notes (Issuer Option)	
ABCP Backed by CDOs with Remarking Put	
CDO Money Market Tranches > 7 Days	
CP of CDOs Without 100% Liquidity	
Collateralized Debt Obligation	
Credit Linked Notes	
Currency Swaps (Limited Liquidity)	
Extendible ABCP	
Funding Agreements Without 7 Day Puts	
Master/Promissory/Loan Participation Notes	
Reverse Extendibles	
Term Repo Greater Than 7 Days	

Maturity Distribution (% of Gross Assets)

1 Day	
2 to 7 Days	0.00
8 to 30 Days	0.00
31 to 90 Days	0.00
91 to 180 Days	0.00
181+ Days	
Update Total	**0.00**

Add Maturity

Government Agency Issuer (% of Gross Assets)

Fannie Mae (FNMA)	
Federal Farm Credit Bank (FFCB)	
Federal Home Loan Bank (FHLB)	
Freddie Mae (FHLMC)	
Sallie Mae (SLMA)	

Market Price Exposure

By far, the most complex part of money market fund analysis is judging a fund's sensitivity to changing market conditions. Absolute stability of net asset value (NAV) is a myth perpetuated by the amortized cost method of pricing securities. All fixed-income securities are subject to price fluctuations based on the following:

- Interest rate movements;
- Maturity;
- Liquidity;
- Credit risk or perceived credit risk; and
- The supply and demand for each type of security.

These factors are just as true for money market funds as for longer-term fixed-income mutual funds. The amortized cost method of pricing permits money fund investments to be priced by amortizing any discount or premium in the purchase price straight to its maturity. For example, the amortized cost price of a 90-day security with a par value of 100 that was purchased for 99.10 will increase in value by 0.01 each day until it matures, notwithstanding changing market conditions. The amortized cost method masks market risk by permitting funds to value securities as if no outside factors exist.

The theory behind allowing amortized cost pricing is that most instruments eligible for purchase by money market funds have minimal market volatility due to their short maturities and high credit quality. It is also cheaper and more efficient for funds to use this method than to get actual market prices on a daily basis. Money funds are required to calculate the market value of their assets periodically to determine if the fund's actual NAV per share deviates materially from $1.00 and to take action if significant deviation exists. Deviations of greater than plus-or-minus 0.5% can create a situation in which a fund sells and redeems shares at a price other than $1.00, or, in other words, "breaks the buck." Clearly, there is a very small margin for error. Recognizing this, Standard & Poor's Ratings Services has focused heavily on the potential deviation in market value (referred to as market price exposure) in establishing money market fund rating criteria. Variables analyzed for each fund rating include the following:

- Weighted average maturity (WAM);
- Liquidity;
- Index and spread risk;
- Diversification;
- Potential dilution of a fund's asset base; and
- Security and portfolio valuation methods.

Combined, these factors determine each fund's market price exposure.

Weighted Average Maturity

Determination of market price exposure begins with an examination of a fund's susceptibility to rising interest rates. The portfolio's WAM is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. A fund comprised entirely of Treasury securities with a WAM of 45 days could withstand approximately twice the interest rate increase that a fund with a 90-day WAM could withstand, leaving all other factors aside.

We assess the sensitivity of the market value of the portfolio's assets to interest rate changes, with a lower sensitivity having a more favorable influence on the fund's rating. For the 'AAAm' rating category, our criteria call for a maximum WAM of 60 days. Nevertheless, some funds have distinct liquidity needs based on asset size, asset volatility, and shareholder profile, making it difficult for these funds to safely manage with a 60-day maximum WAM. Funds with less than $100 million in assets and/or funds with a highly concentrated or highly volatile shareholder base may be limited to a shorter WAM, unless fund management can make a compelling case otherwise. We are often asked to rate small funds with limited operating history (start-up funds) that have a concentrated shareholder base, or a new shareholder base with uncertain liquidity needs. We consider the potential impact of a large redemption by one or more of the major shareholders to be a significant risk to a fund's ability to maintain a stable NAV. Consequently, until a fund has grown to $100 million with a diversified and seasoned shareholder base, we will seek assurance that the fund manages to a shorter WAM with higher levels of liquidity. Higher WAMs are usually considered appropriate for funds in lower rating categories with the maximum WAM limits for 'AAm' and 'Am' rated funds set at 75 days and 90 days, respectively.

Liquidity

Interest rate sensitivity is not the only factor that can affect the principal value of a money market fund's portfolio. Liquidity of a money fund's portfolio is critical to maintaining a stable NAV. The liquidity of a security refers to the speed at which that security can be sold for approximately the price at which the fund has it valued or priced. Securities that are less liquid are subject to greater price variability. Certain securities may be liquid one day, yet illiquid the next day. In determining the rating on a fund, we consider each fund's liquidity needs and its ability to quickly sell portfolio holdings if the need arises to meet cash outflows or large redemptions.

The liquidity of portfolio investments is also of great importance in determining a fund's market price exposure, because the degree of liquidity can greatly affect the market value of investments and result in an erosion of a fund's NAV. When analyzing a fund's liquidity, we consider the following:

- Types of investments and their secondary market liquidity;
- Presence of securities with limited liquidity (e.g. those whose liquidity is dependent on the issuing entity or broker/dealer);
- The fund's level of cash or overnight securities including overnight repo; and
- The portfolio's concentrations by issuers and affiliates.

A fund with a higher proportion of relatively illiquid investments is more susceptible to a sizable decline in its portfolio market value than is one holding highly liquid investments.

The size and breadth of the primary and secondary market, and hence the demand for different types of securities, factors into the liquidity equation. Clearly, the greater the demand for an instrument, the more liquid it is. Nevertheless, some securities can be quite liquid when the issuer or that particular market is performing well. When markets turn (due to event risk), or when the market experiences a flight to quality due to actual or perceived higher market or credit risk, certain instruments can experience significant price movements, and liquidity can dry up rapidly, as was the case with the structured notes market in 1994 and for funding agreements in 1999.

Structured notes were designed to perform well and predictably during periods of stable or falling interest rates. The interest rate environment of 1993 made them popular and fairly liquid. The fact that these securities were issued by government agencies also enhanced marketability and liquidity. When short rates began rising in 1994, the demand, and consequently the liquidity of these instruments, dried up. The illiquid nature of these securities was exacerbated when regulators declared that such securities were clearly

Protecting money market funds from interest rate swings

In accordance with Standard & Poor's Principal Stability criteria for rated money market funds, maximum WAM guidelines are engineered to assure minimal NAV fluctuation under most market conditions.

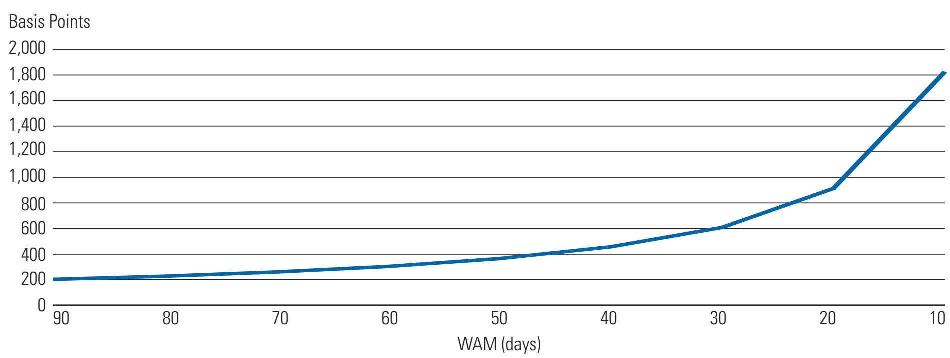
Table 1 **NAV Fluctuation**

	—NAV—					
WAM (days)	0.999000	0.998000	0.997000	0.996000	0.995000	0.994900
	—Basis point shift—					
90	41	81	122	162	203	207
80	46	91	137	183	228	233
70	52	104	156	209	261	266
60	61	122	183	243	304	310
50	73	146	219	292	365	372
40	91	183	274	365	456	465
30	122	243	365	487	608	620
20	183	365	548	730	913	931
10	365	730	1,095	1,460	1,825	1,862

The relationship between interest rate shifts and NAV volatility has led us to restrict 'AAAm' rated money market funds to a maximum WAM of 60 days. The chart below illustrates the inverse relationship between fund WAM and the minimum positive interest rate shift necessary to cause NAV to fall to a given level. Consider, for example, an elementary model fund that holds one Treasury bill and has a WAM of 90 days. In this case, an instantaneous upward shift of 203 basis points (bps) would need to occur before the NAV of the model fund would fall to 0.9950. If the same model fund had a WAM of 60 days, it could sustain a 304 bp interest rate shift before its NAV falls to 0.9950.

Chart 1

Minimum Interest Rate Necessary To Drop NAV to $0.9950 From $1.00



inappropriate investments for money market funds.

The liquidity of funding agreements was and is directly tied to the issuing entity because these securities are not actively traded on the secondary market. Funding agreements are usually issued with a "put feature" that provides the investor the ability to convert the investment back to cash upon notice to the issuing entity. Therefore, the investor is very dependent upon the issuing entity to provide liquidity for funding agreements. In 1999, an insurance company that had issued a sizable amount of funding agreements with short-term puts experienced a sudden and unexpected series of credit downgrades, resulting in a rush of holders to exercise their puts. When this issuer failed to meet its put obligations, holders of funding agreements were left holding "lower credit and illiquid securities," presenting these funds with significant market value risk.

Liquidity is not always easy to measure. As noted, some securities may be very liquid in certain markets and very illiquid in others. Securities tend to be less liquid if they are:

- Not often traded;
- In short supply;
- Relatively new and innovative; or
- Highly structured.

Other factors influencing liquidity are the number of dealers making a market in the security, the complexity of the security, and the seasonal nature of supply and demand, particularly in the tax-exempt market.

10% Limited Liquidity/Illiquid Basket

Currently, both U.S. domestic money market funds and certain offshore money funds that abide by Rule 2a-7 can elect to classify and hold up to 10% of their assets in an illiquid basket. This basket is intended to provide money market funds with a safe holding place to prevent illiquid securities from causing a deterioration of a money market fund's NAV during periods of illiquidity for these securities. While rated money market funds continue to be managed conservatively, and thus maintain high ratings, the introduction of less-liquid securities might result in increased price risk.

In 2003, we modified our Principal Stability Fund Rating criteria to address the increased price risk introduced when stable NAV funds invest in securities with limited liquidity by creating a 10% limited liquidity/illiquid basket. This criterion was developed to address a trend of less-liquid securities being introduced into certain stable NAV funds, including rated money market funds. We are concerned that occurrences in the marketplace could create a potentially less-liquid market for these securities and a NAV pricing problem for funds.

The following list of securities should be considered part of a Standard & Poor's Principal Stability Fund Ratings limited liquidity/illiquid basket. In addition, we may still consider securities not listed below as possessing limited liquidity:

- Funding agreements exceeding seven days to maturity (unless the fund holds an unconditional put providing for liquidity within seven days).
- Term repurchase agreements exceeding seven days to maturity (unless the fund holds an unconditional put providing for liquidity within seven days).
- Securities denominated in a currency other than a fund's base currency and swapped back into the fund's base currency.
- Time deposits exceeding seven days to maturity, unless the deposit agreement has a specific option enabling the holder to break the deposit without a penalty or additional cost.
- Master promissory notes and loan participation notes exceeding seven days to maturity (unless the fund holds an unconditional put providing for liquidity within seven days).
- Credit-linked notes (CLNs).
- Extendible corporate notes where the investor does not possess the option to extend.
- Extendible asset-backed CP that when booked to the expected maturity date exceeds seven days to maturity and do not meet the five conditions outlined above.
- Money market tranches of CDOs that exceed seven days to maturity, unless:
    - It has an unconditional put providing for liquidity within seven days, or;

  - It is booked to the legal final maturity date, or;
  - The liquidity facility offers full third-party committed support without extension risk.
- CP of CDOs, unless:
  - Backed by a 100% third-party liquidity support, and absent an extension feature or delayed draw feature, or;
  - Booked to the legal final (put/extension) maturity date if backed by 100% third-party liquidity support that possesses an extension feature or delayed draw feature (e.g., of two to three days);
- ABCP single-seller conduits investing in senior tranches of CDOs that rely on liquidity support with a remarketing put mechanism, unless:
  - It is booked to the legal final (put/extension) maturity date.

Extendible asset-backed liquidity notes that are booked to their legal final maturity date will not be required to count toward the 10% limited liquidity basket. Additionally, nonagency callable notes (sometimes referred to as "Reverse Extendible Notes") booked to the call dates and extendible asset-backed liquidity notes booked to the expected maturity date will be required to count toward the 10% limited liquidity basket for rated Principal Stability funds unless the program meets all of the following conditions:

1. Current outstanding issuance balance of at least $1 billion;
2. Issued by a sponsor that has a minimum of three years activity in the securitization market involving the asset classes described below;
3. Limited to programs backed by credit card receivables, auto and auto-related assets/receivables, residential mortgage loans, home equity loans, and/or federally guaranteed (U.S. government) student loans;
4. A minimum of two dealers actively making a market for the program;
5. Issued via a Master Trust Structure or by an issuer/sponsor that has Standard &

Table 2 Impact Of Dilution

Assumptions	
Portfolio asset value:	$100 million
Weighted average maturity:	90 days
Number of shares:	100 million
Share value:	$1.00
Share price:	$1.00
Event 1: Interest rates rise 150 basis points (1.50%)	
Result:	
Number of shares:	100,000,000
Portfolio value drops to:	$99,630,000
Unrealized loss:	$370,000 ($100,000,000 - $99,630,000)
Share value:	$0.9963 ($99,630,000/100,000,000 shares)
Share price:	$1.00 per share
Event 2: In conjunction with Event 1, fund experiences 25% redemption	
Result:	
Number of shares:	75,000,000
Portfolio value drops to:	$74,630,000 ($99,630,000 - $25,000,000)
Unrealized loss:	$370,000
Share value:	$0.9947 ($74,630,000/75,000,000 shares)
Share price:	$0.99 per share

Poor's publicly rated investment-grade asset-backed debt outstanding as described above and surveillance data on asset pool performance is publicly available (e.g. regularly/monthly published pool reports).

As long as an XABCP program meets all five points listed above, it may be excluded from the limited liquidity/illiquid basket regardless of whether a program is single-seller or multi-seller. Additionally, the dollar amount of the program should be applied to the base currency of the fund. Should the dollar amount outstanding of a program drop below the one billion threshold, Standard & Poor's will evaluate on a case-by-case basis the treatment of such a program under its limited liquidity criteria. An important determination will be the commitment from the sponsor to the program.

We believe these securities can be less liquid due to their relative newness to money markets, limited trading activity or inactive secondary markets, dependency on a single issuer or broker, small number of dealers making a market in the security, customization of the security, or the complex nature of the security. Since liquidity is defined as the speed at which the security can be sold for the price at which the fund has it valued, accurate pricing and a deep secondary market are considered key in the determination and stability of the fund's overall marked-to-market calculation. We also

Multifactor Net Asset Value Sensitivity Analysis

Standard & Poor's Principal Stability criteria for rating money market funds incorporate analysis of both interest rate sensitivity and redemption/subscription volatility. We have established maximum WAM guidelines, which, under most market conditions, protect against significant market price fluctuation. When WAM values are analyzed in lock-step with redemption/subscription assumptions, NAV volatility is exacerbated. NAV is sensitive to interest rate shifts, net redemptions, and the combined effects of sudden interest rate shifts and instantaneous net redemptions (see Standard & Poor's Sensitivity Matrix). The end column of Standard & Poor's Sensitivity Matrix shows NAV change due to interest rate increases with no redemptions. The critical assumption needed to compute the values for this column is that WAM represents, to some extent, duration of the portfolio. This assumption having been made, an example using a hypothetical money market fund will be used to illustrate the methodology behind the sensitivity analysis.

Assume the hypothetical money market fund has a NAV of $1.00 and a WAM of 60 days when the market experiences a 250 bp interest rate increase:

Formula 1

New NAV = NAV - (WAM/365) * (bp shift/10,000)

0.99589 = 1.00000 - (60/365) * (250/10,000)

The next consideration in the model is dilution. Dilution occurs when shareholders are paid $1.00 per share while the fund's NAV is less than $1.00. To complete the example, assume the hypothetical money market fund now suffers the effects of dilution due to a 20% redemption when the NAV is 0.99589. The following formula would be used:

Formula 2

New NAV = (NAV + [% change])/(1 + [% change])

0.99486 = (0.99589 + [-0.20])/(1 + [-0.20])

Thus, the NAV of a model fund that experiences a 250 bp interest rate shift and a subsequent redemption of 20% would fall to 0.99486. The results of several different scenarios assuming different interest rate increases and redemptions are detailed in Standard & Poor's Sensitivity Matrix.

believe it is important for each rated fund to determine a diversification level that is prudent given the overall makeup of the fund, including establishing sensible guidelines as to what percentage a fund will hold of the total program outstanding.

Limited liquid and illiquid securities combined should not exceed 10% of a rated fund's total assets. We will continue to evaluate the market and trading activity of these securities and will reevaluate its position and ratings criteria on these limitations. We regularly review our Principal Stability Fund Ratings Criteria and make appropriate modifications based on developments in the market and our views of the risks posed to rated funds.

We assign ratings to money market funds based on the fund's credit quality and liquidity, and its ability to manage both the market risks and liquidity risks associated with these holdings given its shareholder base. Each money market fund's liquidity needs and its ability to hold and manage less-liquid securities is considered on a case-by-case basis. A fund with a limited operating history or a volatile shareholder base may not be able to effectively manage and maintain a high degree of share price stability with any exposure to securities with limited liquidity. In addition, a fund manager must be able to clearly and effectively demonstrate a thorough understanding of the risks presented

Table 3 Standard & Poor's Sensitivity Matrix

Assumptions:	**WAM = 30 days:** Starting Market Value = $1.00 per share				
BP increase					
300	0.9965	0.9969	0.9973	0.9974	0.9975
250	0.9971	0.9974	0.9977	0.9978	0.9979
200	0.9977	0.9979	0.9982	0.9983	0.9984
150	0.9983	0.9985	0.9986	0.9987	0.9988
100	0.9988	0.9990	0.9991	0.9991	0.9992
50	0.9994	0.9995	0.9995	0.9996	0.9996
Redemption	30%	20%	10%	5%	0%
Assumptions:	**WAM = 60 days:** Starting Market Value = $1.00 per share				
BP increase					
300	0.9930	0.9938	0.9945	0.9948	0.9951
250	0.9941	0.9949	0.9954	0.9957	0.9959
200	0.9953	0.9959	0.9963	0.9965	0.9967
150	0.9965	0.9969	0.9973	0.9974	0.9975
100	0.9977	0.9979	0.9982	0.9983	0.9984
50	0.9988	0.9990	0.9991	0.9991	0.9992
Redemption	30%	20%	10%	5%	0%
Assumptions:	**WAM = 90 days:** Starting Market Value = $1.00 per share				
BP increase					
300	0.9894	0.9908	0.9918	0.9922	0.9926
250	0.9911	0.9923	0.9932	0.9935	0.9938
200	0.9929	0.9938	0.9945	0.9948	0.9951
150	0.9944	0.9954	0.9959	0.9961	0.9963
100	0.9964	0.9969	0.9973	0.9974	0.9975
50	0.9982	0.9985	0.9986	0.9987	0.9988
Redemption	30%	20%	10%	5%	0%

by the security and internally price or value the security.

Shareholder Characteristics

A money fund's market price exposure is also affected by the flow of money in and out of the fund. Unexpected redemptions can have a direct influence on a fund's NAV. Therefore, we carefully review the characteristics of each fund's shareholder base to determine the potential impact that significant redemptions might have on a fund's market price exposure. Money funds are permitted to issue and redeem shares at $1.00, provided that their market value is between $0.995 and $1.005. Because funds can pay out $1.00 on shares that may actually be worth as little as $0.995, the remaining shareholders in the fund absorb the difference. This is referred to as dilution, as redeeming shares at a price above their actual market value is diluting the value of the fund's holdings.

Dilution can accelerate fund losses in a rising interest rate environment, causing a fund to break the dollar. In the below example, Impact of Dilution, a 150 bp rise in interest rates causes a 90-day WAM portfolio's market value to drop to $0.9963 per share. A subsequent 30% redemption (paid out at $1.00 per share) dilutes the portfolio's value to $0.9947, thus breaking the dollar. This occurs because although the unrealized loss in the fund remains the same, the loss is spread over a smaller number of shares. While sudden 150 bp rises in interest rates are rare, several large redemptions during a period of steadily rising interest rates can produce similar results.

Dilution concerns are heightened for funds with sophisticated institutional shareholders. These investors realize that a fixed $1.00 NAV is an illusion based on convenient valuation methods, and can easily take advantage of this phenomenon. For example, if an investor held $1 million in 90-day U.S. Treasury bills yielding 5%, and if interest rates increased 150 bps, the value of the investment would drop by approximately $3,700 and the investor's yield would remain at 5%. Instead, assume that the investor held one million shares of a money market fund holding exclusively Treasury bills with a WAM of 90 days and yielding 5% (setting aside fund expenses for this example). If interest rates rose 150 bps, the investor could sell the fund investment for $1.00 per share and not experience any loss. The investor could then purchase 90-day Treasury bills yielding 6.5%, instantaneously increasing its return by 1.5%. If this type of market-sophisticated shareholder, who is apt to chase yields, represents a material percentage of a fund's assets, substantial dilution in share prices is likely because of large and sudden redemptions.

In analyzing money market funds, our review of shareholder constituency encompasses the number, average holding size, type, size of the largest accounts, historical asset volatility, and the relationship fund management has with its largest investors. The proportion of retail versus institutional investors and the past history of redemptions are also examined. Funds with histories of volatile subscription and redemption patterns are expected to maintain shorter weighted average portfolio maturities.

We expect a fund's investments to be tailored to its potential cash-flow needs. For funds with a volatile or potentially volatile shareholder base, a more conservative approach must be taken with regard to WAM and liquidity. Funds with more stable or predictable cash flows, such as retail funds or institutional funds with large, diverse shareholder compositions, can be somewhat more aggressive. We use a matrix that stress-tests portfolios based on the effect of interest rate movements and redemptions at a variety of WAM levels *(see Multifactor Net Asset Value Sensitivity Analysis, pgs. 25-26 and table 3)*.

Portfolio structure is also a factor in determining the risk dilution presents to a fund. Funds with a barbelled maturity structure (heavily weighted in short-term maturities with the remainder in longer-term securities) are more susceptible to the negative effects of shareholder redemptions than are laddered portfolios (relatively evenly spaced maturities). If a barbelled fund experiences redemptions in a rising interest rate environment, the short end of the fund will likely be liquidated to avoid taking significant realized losses. This will cause the WAM of the fund to extend, creating greater interest rate sensitivity and exacerbating the negative effects of future redemptions. Laddered portfolios are less exposed in these circumstances, although they are by no means insulated from rising interest rates and redemptions. As part of the rating process, we consider whether each fund's portfolio structure is best suited to its shareholder base and potential asset outflows.

Pricing

We expect that all money market fund investment advisers have the ability to price (mark to market) portfolio securities and calculate NAV in-house. Additionally, we request all funds rated for principal stability to price securities at least weekly. In many cases, investment advisers rely exclusively on fund administrators to perform such functions. While fund administrators have proven capable providers of such services and provide independent prices, we believe that all investment advisers should have some built-in redundancies to check the administrators' work, questioning any discrepancies that may occur. For securities that are difficult to price, such as structured notes or other less-liquid instruments, including those securities that have embedded optionality, two or more dealer bids are suggested.

A Standard & Poor's principal stability rating directly addresses the ability of a fund to maintain a NAV that does not deviate by more than one-half of 1%. For a fund to effectively stay within this narrow range, accurate pricing of its securities is essential. Most money market fund instruments are highly liquid and easy to price. Nevertheless, some complex, structured, and derivative securities present pricing difficulties.

Complex and derivative securities often lack efficient, liquid markets. Trading in these securities can be infrequent, creating varying price quotes among dealers and wide bid/ask spreads. The prices of these types of securities may be determined in a variety of ways, including dealer quotes, matrix pricing formulas, spreads to benchmark securities, pricing services, or even by the fund advisers themselves. All of these methods have drawbacks. Dealer quotes on thinly (infrequently) traded securities often represent indicative pricing levels and rarely constitute an actual bid to purchase the security. Matrix prices, pricing service quotes, and spread calculations are not based on actual trades, and do not represent a price at which anyone actually offered to purchase the security. These methods calculate a hypothetical price that is not verifiable. Pricing by fund managers often occurs when the manager either disagrees with the other pricing methods or holds securities so unique that other pricing methods are inadequate. Clearly, even if the fund manager can determine fair value prices based on in-depth analytics, it is far from certain that any buyers are willing to purchase the securities at or near those prices.

Before purchasing complex, derivative, or otherwise illiquid or less-liquid securities, portfolio managers should carefully examine the pricing issue. It is necessary to evaluate the number of available pricing sources, with an eye toward identifying material discrepancies. Portfolio managers should also be aware of pricing methodology, and compare the results to recent trading activity. It is inadvisable for a fund's manager to solely accept the calculations of a security's issuer or dealer in determining the value of an investment. This information may be either highly biased or based on inaccurate assumptions, or both. Portfolio managers should not only be able to determine their own fair value for securities that are difficult to price, but need also to consider the marketplace for each security and the potential volatility that can be caused by inefficient market pricing. If a fund adviser lacks the ability to assess the potential market behavior of a security with a high degree of comfort, the security should not be purchased for that money market fund. ■

Security-Specific Criteria

Standard & Poor's Ratings Services' Principal Stability fund ratings (also known as money market fund ratings) analysis focuses on the credit quality of a fund's investments and counterparties, the market price exposure of its investments, and management's ability and policies to maintain the fund's stable net asset value (NAV) by limiting exposure to loss. We have published criteria on these areas, and it can found at www.standardandpoors.com. In addition to these published criteria articles, the following is a discussion of the Principal Stability fund rating criteria for specific securities and asset classes.

Government Agency Concentration

Liquidity analysis, or the ability to return an investment for cash, is performed on all issues and issuers regardless of credit quality. Securities with minimal credit risk, such as U.S. government agency obligations, may deviate in price for reasons other than interest rate movements. While the credit quality of these agencies is not typically a major concern, adverse publicity or market rumors about an agency can affect the price and liquidity of all agency securities, including those from the U.S. government. For this reason, we consider diversification to be an important feature of all securities. Yield spreads between short-term agency securities (for both fixed- and variable-rate notes) and traditional benchmarks (such as the Treasury bill) may widen under numerous conditions. For fixed-rate securities with maturities of less than one year, the impact of spread widening on the price of the security is minimal. Nevertheless, given the small margin for error that stable NAV funds permit, high concentrations in the securities of any one agency might expose the fund to material spread-widening risks.

For these reasons, we have established government agency diversification criteria for Principal Stability fund ratings. Generally, we expect no more than 33.33% percent exposure to any single government agency. When exposures exceed 40%, funds will be expected to maintain lower weighted average maturities (WAMs) and/or increased levels of highly liquid securities to reduce this exposure. Exclusively to these securities, the impact of spread widening can be viewed as synonymous with rising market interest rates. Therefore, if a fund had a 50% concentration in any one agency, and spreads for that agency's securities widened by 20 basis points (bps), the impact on the market value of the fund's overall portfolio could be comparable to the effect of market rates rising 10 bps without that spread widening.

Holding all other factors constant, funds with a WAM of 60 days should be able to withstand up to a one-day, 300 bps rise in interest rates without "breaking the dollar." We have calculated various levels at which a fund would break the dollar for different U.S. agencies, given various spread-widening assumptions. The spread-widening and instantaneous interest rate rise assumptions differ for each rating category, as shown in the following section.

These criteria are meant as general guidelines. Circumstances may differ among funds based on certain factors, which include maturities of the agency securities, type of securities (fixed-versus variable-rate), other sources of fund liquidity, and the issuing agency.

Some U.S. government money market funds (sometimes referred to as "government-only" funds) are established to invest purely in U.S. government securities paying interest and generally exempt from state income taxation. These securities include obligations issued by the U.S. Treasury and certain U.S. government agencies, instrumentalities, or sponsored enterprises, such as the Federal Home Loan Bank and the Federal Farm Credit Bank. Because there are only a few U.S. government agencies that meet this criteria, Standard & Poor's rated government-only money market funds can have a difficult time managing to the strict diversification guidelines. Therefore, for government-only money market funds, our criteria permit exposures beyond the 33.33% limit, as long as all amounts exceeding the 33.33 limit mature in 30 days or less.

Variable And Floating-Rate Securities

We expect investment policies to include clear and explicit guidelines regarding variable-rate notes (VRNs), floating-rate notes (FRNs), and other synthetic instruments. Fund investment policies should clearly incorporate procedures regarding approval, risk measurement, control, and limits related to investment in structured notes and other less-liquid securities. Fund managers holding such securities should be able to present an analytical basis for determining that such notes have a reasonable likelihood of maintaining, or being repriced to, amortized cost value at each reset until maturity. This analytical basis should include a review of historical index behavior and sensitivity analysis.

Our criteria for FRNs and VRNs in rated money market funds call for written guidelines and procedures that ensure:

- No purchase of range notes, dual index notes, "deleveraged" notes (notes linked to a multiple of the index where the multiple is less than one), or notes linked to lagging indices (e.g., Cost Of Funding Index [COFI]) or to long-term indices (e.g., five-year or 10-year Treasuries).
- No purchase of VRNs with coupons tied to indices, index formulas, or index spreads with less than 95% correlation with the U.S. Fed Funds Rate. Indices with historically high correlations are: Three-Month Treasury Bill, Six-Month Treasury Bill, Three-Month LIBOR, Six-Month LIBOR, One-Year Constant Maturity Treasury (CMT), Prime Rate, and CP Composite.
- At the 'AAAm' level, the final maturity for all FRNs/VRNs will not exceed one year (397 days) for U.S.-registered funds. Nevertheless, government issues maturing up to two years (762 days) from time of purchase are eligible.
- At the 'AAm' level, the final maturity for all FRNs/VRNs will not exceed one year (397 days) for U.S.-registered funds. Nevertheless, government issues maturing up to three years (1,127 days) from time of purchase are eligible.
- At the 'Am' level, the final maturity for all FRNs/VRNs will not exceed one year (397 days) for U.S.-registered funds. Nevertheless, government issues maturing up to four years (1,492 days) from time of purchase are eligible.
- At the 'BBBm' level, the final maturity for all FRNs/VRNs will not exceed one year (397 days) for U.S.-registered funds. Nevertheless, government issues maturing up to five years (1,857 days) from time of purchase are eligible.

Weighted Average Maturity Adjustments For Agency Concentrations

To compensate for the potentially negative impact of the spread widening of highly concentrated government agency positions, our Principal Stability Criteria has established WAM adjustment factors for money market funds rated 'AAAm' to 'BBm'.

Methodology

Step 1: We assume the following worst-case spread widening and instantaneous interest rate rises *(see table 1)*:

Table 1 Worst-Case Spread Widening And Interest Rate Rises

Rating category	Spread widening (bps)	Interest rate increase (bps)
AAAm	100	300
AAm	75	260
Am	50	225
BBBm	25	200

Step 2: The spread-widening number is then multiplied by the fund concentration in the securities of any one agency.

Step 3: The product is then added to the applicable interest rate increase to determine the equivalent interest rate sensitivity that the fund may exhibit.

Step 4: The interest rate sensitivity equivalent calculated in Step 3 is applied to Standard & Poor's interest rate sensitivity matrix to determine the maximum WAM that allows the fund to maintain an NAV above 0.9950.

Application

Because there is a range of maximum WAMs for each rating category, with the actual maximum determined on a case-by-case basis, we use adjustment factors to determine the proper maximum WAM for each fund. The adjustment factors are simply the maximum WAM for the rating category minus the WAM determined in Step 4 above.

Example

1. Assume an 'AAAm' rated fund has a 50% agency concentration in FHLBs.
2. (0.5) * (100 bps spread widening) + (300 bps interest rate rise) = 350 bps.
3. At an instantaneous interest rate rise of 350 bps, a fund with a WAM of 52 days or less will remain above 0.995. Because the maximum WAM for the 'AAAm' rating category is 60 days, the adjustment factor is equal to 60 days minus 52 days, or eight.

Table 2 'AAAm' Level (100 Bps Spread, 300 Bps Movement)

Agency concentration (%)	Adjustment factor (from 60 days)
40-44	7
45-54	8
55-64	10
65-70	11

Table 3 'AAm' Level (75 Bps Spread, 260 Bps Movement)

Agency concentration (%)	Adjustment factor (from 75 days)
40-44	13
45-54	14
55-64	16
65-70	17

Table 4 'Am' Level (50 Bps Spread, 225 Bps Movement)

Agency concentration (%)	Adjustment factor (from 90 days)
40-44	16
45-54	17
55-64	19
65-70	20

Table 5 'BBBm' Level (25 Bps Spread, 200 Bps Movement)

Agency concentration (%)	Adjustment factor (from 90 days)
40-44	4
45-54	5
55-64	6
65-70	7

- Where valuation is not based on actual dealer bids, there must be clear notification and disclosure of all other valuation methodologies used (e.g., matrix pricing). Pricing policies should include techniques to verify and validate FRN/VRN pricing on a recurring basis.
- Weekly reporting of FRN/VRN holdings to Standard & Poor's should include current market price, CUSIP, coupon or interest rate terms, frequency of reset, market value, put features, and any other significant terms and conditions.

Index And Spread Risk

VRNs and FRNs present unique market price risks. VRNs and FRNs used in money funds are typically linked to conventional money market indices, providing funds with yields that track short-term interest rate movements. These investments are designed to exhibit less interest rate risk when compared with fixed-rate investments, but this is not always the case. Factors affecting the value of these instruments include index risk and spread risk.

Index risk is the possibility that the coupon of a VRN or FRN will not adjust in tandem with money market rates. Index risk can be introduced by calculating the variable-rate coupon based on a nonmoney market index, a money market index in which the coupon adjusts based on a multiple (or fraction) of the index, or an index based on the difference (or spread) between two or more indices.

When analyzing VRNs and FRNs in money market funds, we compare the index used in the variable-rate adjustment formula to a standard money market index, such as the Federal Funds Rate. We believe that for all money funds rated 'BBBm' and above, the index should have a correlation of at least 95% of the effective Fed Funds Rate. By this measure, nontraditional money market fund indices, such as the 11th District Cost of Funds Index (COFI) and the Two-Year Constant Maturity Treasury Index, are clearly unsuitable, with historical correlations of below 95% *(see table 6)*.

The Canadian Dollar Offered Rate (CDOR) is the recognized benchmark index for banker's acceptances with a term to maturity of one year or less. It is determined daily from a survey of nine market markers, and is calculated using a survey of different maturity bands including one-month BA, two-month BA, three-month BA, six-month BA, one-year BA, and call markets, where the high and low rates are removed to minimize any bias and an average is calculated for the remaining survey rates. The results are released at 10:15 a.m. each business day. We have found a high correlation between this benchmark and the Canadian Bank Rate during a historical 10-year period. Based on this study, we have approved this benchmark within Canadian Principal Stability Rated Funds.

Some VRNs and FRNs may use indices that are highly correlated to traditional money market indices. Yet, because of their rate adjustment formulas, they can still introduce significant price risk. One example is an adjustment formula tied to a multiple or fraction of a money market index. For this reason, stress testing is important. Although there are a variety of valid techniques to model potential performance of these securities under adverse market environments, one straightforward approach is to look at

Table 6 Correlations Of Various Indices

—Monthly data from 11/30/1992 to 11/30/2006—

Index	Correlation to Fed Funds (%)
Fed Funds	100.00
Prime	98.76
30 Day CP	98.66
1 Month LIBOR	98.41
60 Day CP	98.37
90 Day CP	98.06
3 Month LIBOR	98.07
3 Month T-Bill	97.90
6 Month LIBOR	97.21
6 Month T-Bill	96.97
1 year CMT	95.88
1 year T-Bill (Composite)	95.30
2 year CMT	92.02
MUNI PSA Index	91.78
COFI	90.46

Source: Bloomberg. LIBOR—London Interbank Offered Rate. CMT—Constant Maturity Treasury. COFI—Cost of Funds Index.

VRN/FRN performance under significant interest rate movements. If a VRN/FRN can withstand a 3% (300 bps) move in rates without causing its value to deviate significantly, the VRN/FRN should behave adequately in most interest rate environments. To "pass" the 3% stress test, the yield on the VRN/FRN would need to increase by a comparable amount.

The ultimate maturities of VRNs/FRNs are also risk factors. The concern here is not index risk, but the spread risk associated with longer-dated securities. For example, a government agency may issue five-year adjustable-rate notes that reset weekly at the Three-Month Treasury Bill Rate plus 5 bps. Over a period of time, these securities may be perceived by the market as warranting a higher spread to the Three-Month Treasury because of liquidity, credit, supply and demand, political events, or volatility in market interest rates. Investors may demand that subsequent comparably dated securities of that agency be sold at 30 bps above the Three-Month Treasury Bill Rate. This potentially creates a negative drag of 25 bps for the remaining life of the original security and could materially affect its market value. This may occur even though the maturities of these VRNs can be calculated at seven days (time to next reset) for regulatory purposes or their coupons are tied to a highly correlated index.

Because of the potential impacts of spread risk on the market prices of VRNs and FRNs, we expect rated funds to limit the remaining maturity of U.S. government VRNs/FRNs to two years (762 days) for 'AAAm', three years (1,127 days) for 'AAm', four years (1,492 days) for 'Am', and five years (1,857 days) for 'BBBm'. Corporate and structured (e.g., ABS) VRNs/FRNs have the added risk of credit deterioration and should be limited to final maturities of 13 months or less for money market funds registered under rule 2a-7 of the Investment Company Act of 1940. The percentage of VRNs/FRNs in a fund also enters into the rating analysis to determine a fund's overall risk profile. For example, a fund that was 50% invested in VRNs/FRNs with four-year remaining maturities would not receive an 'Am' rating due to spread risk concerns. Percentages of VRNs/FRNs in each fund are analyzed on a case-by-case basis in conjunction with the fund's other holdings.

Callables, Convertibles, And Similar Structures

Callable and convertible notes are designed to perform well in stable interest rate environments. Both callable and convertible notes can present funds with unique market risks including call risk, reinvestment risk, interest rate risk, and liquidity risk. Given these multiple risk factors, managers should closely evaluate the pricing and market risks presented by these securities.

Corporations and government agencies issue short-term callable debt generally with one-year final maturities and monthly or quarterly call dates. Due to the call feature, the interest rates (yield) for these securities are generally higher than those for equivalent noncallable instruments. The added risk is "uncertain" principal maturity. There are several ways that this risk can manifest itself; for example, during periods of rising interest rates, the value of these callable notes will decrease, as would a similar noncallable fixed-income security. During a period of falling rates, however, the price of callable notes will not appreciate in proportion with noncallable notes given the increased likelihood that the callable notes will be called at the next call date. Investors will be unwilling to pay any material premium in the purchase price given the call risk.

Callable note investors also face the risk of having their notes called away when rates fall. Issuers are more likely to call (or retire their outstanding debt) when interest rates have dropped as this provides an opportunity to obtain cheaper financing. Reinvestment risk is present as investors of callable notes that are called will have to reinvest at lower rates.

Convertible notes are a variation on short-term callable notes, as convertible notes, while not callable, can be converted from a fixed rate to a floating rate at the option of the issuer. The holder is short the convertible feature, and thus is paid a yield premium to offset this uncertainty or risk. Like callables, convertible notes are typically issued with one-year final maturities at attractive fixed rates or with predetermined floating-rate formulas. The value of convertible notes will also fall during rising rate periods, behaving much like standard fixed-rate instruments—however, when rates fall, the price appreciation of convertible notes will be limited due to the increased likelihood of conversion. The conversion risk is similar to call risk and thus has similar inherent price or market risks. The key difference is that upon conversion, the interest earned on the convertible notes is based on a predetermined formula, while the note holders control the reinvestment options for the callable notes.

Standard & Poor's believes it is prudent for fund managers to perform stress tests on these securities under various interest rate scenarios to determine the relative value of holding these securities during periods of both rising and falling rates. Assumptions should include the magnitude of the interest rate decline required for the securities to be called or converted and the frequency of the options that may be exercised (monthly, quarterly, and so forth). Managers should closely evaluate the risk and reward trade-offs presented by these securities before investing in these notes.

In holding convertible notes, a fund is taking all the risks of a fixed-rate instrument, while potentially receiving the lower returns that floating-rate instruments provide in a declining interest rate environment. To make these notes more attractive, issuers typically set the floating-rate reset formulas at spreads above an index (such as Fed Funds or LIBOR) that are higher than the market rate for variable-rate securities. While such formulas may look enticing in the near term, spreads may widen over time, potentially creating a below-market yield at such times as the notes are converted. In fact, the issuers of convertible notes have an incentive to exercise the conversion option should spreads widen sufficiently, even if short-term interest rates remain stable. In essence, this gives them the opportunity to finance at below market rates. This risk does not apply to callable notes because once the security has been called, the holder is free to reinvest at current market rates, either fixed or variable.

Since callable and convertible notes are more complex than standard fixed-rated securities, determining reliable prices for these is a more difficult task. Managers should price these securities to market on a regular basis with multiple broker-dealers or reliable sources to ensure accurate market values as dealer quotations are subject to a wide degree of subjectivity. Since these securities often lack an efficient and liquid secondary market, portfolio managers should be able to value these securities internally based on their own in-depth analysis. Given the less liquid nature of these instruments, the securities can experience higher price volatility.

When calculating the WAM for Standard & Poor's rated funds, callables and convertibles should be booked to their final maturity dates. If the issuer exercises the option on the convertible note, then the maturity can be calculated to the next reset date, assuming the price on the note can still reasonably be expected to remain at or near par on subsequent reset dates. If spreads for comparable floating-rate notes have changed materially, the convertible notes should continue to be booked to their final maturity dates.

Standard & Poor's will evaluate other structures—such as agency flippers (also known as agency flip-flops), step-ups, and other similar structures—using similar criteria. Further, Standard & Poor's believes that because of the inherent risks present in these securities, rated funds should impose defined limitations to their exposure to callable and convertible notes, thereby mitigating the risk of unanticipated price volatility. These limits should be based on the fund's cash flow volatility, liquidity needs, and overall market price exposure.

Repurchase Agreements (Repos)

Repos are agreements whereby a holder of securities sells such securities to a counterparty and agrees to repurchase them at an agreed future date at an agreed upon price. Money market funds invest in repos because they are highly liquid short-term instruments backed by collateral. Additionally, they may offer more attractive yields than other permissible investments.

Counterparty risk

While we recognize the importance of the collateral securing these repos, our main focus regarding their risk in the context of money market fund ratings is on the counterparty's creditworthiness. The reason for this is that a default by a repo counterparty that results in a fund taking possession of the underlying collateral could create both liquidity and market risks inappropriate for stable net asset value (NAV) funds.

These risks exist because most repos' underlying securities are typically ineligible investments for money market funds, either because of their maturity (longer than 397 days) or type (for example, certain MBS). A fund that takes possession of such collateral will have to sell it as soon as possible. Any delay in a fund's ability to sell the securities could expose the fund to losses based on the difference between the price of the repo and the collateral proceeds. Moreover, any delay in the sale of such securities could affect a fund's liquidity.

As a result, we have diversification criteria to limit a fund's repo exposure based on the counterparty rating, as well as criteria for evaluating repo counterparties. These criteria vary depending upon whether the repos are "qualifying" repos or "nonqualifying" repos (as discussed below). The criteria for qualifying repos is less restrictive than that for nonqualifying repos and such criteria is now being applied to a broader range of repo instruments to maintain consistency in light of recent market trends.

Criteria for qualifying repos

Our approach takes into account the special protections that certain qualifying repos are eligible for under the Bankruptcy Code. Qualifying repos are repos that fall under a Bankruptcy Code safe harbor and are not subject to the automatic stay when a repo counterparty is insolvent and bankruptcy proceedings commence. The basis for the differing criteria is that qualifying repos are not subject to the same delays that nonqualifying repos may be subject to when a counterparty defaults and files for bankruptcy. A fund may be able to liquidate, terminate, or accelerate the qualifying repo with greater flexibility and less exposure to market and liquidity risks.

Qualifying repos may include traditional and nontraditional collateral. While less restrictive criteria has existed for qualifying repos (formerly known as traditional collateral criteria), this criteria has been renamed to refer to a broader range of asset types that may be used as collateral for repos. Whereas previously, qualifying repos included only traditional collateral (such as U.S. government or U.S. government agency securities including Treasuries, Agency Discount Notes, and Agency MBS), now qualifying repos can include nontraditional collateral (such as investment-and noninvestment-grade corporate debt, money market securities, and even shares of U.S. equities to back their repo obligations) if the funds themselves meet certain tests.

The reason for this change has to do with both the growth in nontraditional collateral repos and the expansion of asset types underlying repos entitled to special protections under the Bankruptcy Code. While the growth in nontraditional collateral has been partly spurred by brokers seeking to leverage other asset types, the demand is primarily fueled by the funds in search of higher yields and the added basis points that come with the nontraditional collateral.

These market changes have been reflected to a certain extent in recent amendments to the Bankruptcy Code. In one change, the definition of repos under the repurchase agreement safe harbor has been expanded to specifically include certain nontraditional asset types such as investment-grade MBS. In another change, certain entities have been specifically added to Bankruptcy Code provisions so as to be able to rely on other safe harbors that provide special protections to a wide array of securities contracts, including repos.

In light of these changes, we have modified our criteria and will consider certain specified nontraditional collateral such as investment-grade MBS and other eligible nontraditional collateral as qualifying repo collateral for purposes of our criteria.

Funds that seek to utilize the less-restrictive diversification criteria for nonqualifying collateral may either represent that such repos fall within the definition of a repurchase agreement under the Bankruptcy Code or provide legal opinions satisfactory to Standard & Poor's that provide assurance that:

- The fund meets the definition of either a financial institution or financial participant or otherwise qualifies as an entity entitled to benefit from special protections under the Bankruptcy Code with respect to securities contracts; and
- The fund's repos qualify as "securities contracts" as defined in the Bankruptcy Code.

If the fund enters into repos with financial institutions subject to the FDIA, the fund must provide assurance that the repos satisfy the definitions of "qualified financial contract" under the FDIA in addition to the definitions of either a repurchase agreement or a securities contract as the case may be.

We are reviewing the applicability of this appraoch concerning nonqualifying repos for funds registered outside the U.S.

Diversification criteria for qualifying repos. Our diversification criteria for qualifying repos is as follows for 'AAAm' rated funds:

- The aggregate amount of all repos (regardless of the rating) with maturities of more than seven calendar days may not exceed 10% of a fund's total assets;
- Repos with maturities beyond overnight and less than or equal to seven days with any single dealer (A-1+) are limited to no more than 25% of a fund's total assets;
- Repos with maturities beyond overnight and less than or equal to seven days with any single dealer (A-1) are limited to no more than 10% of a fund's total assets;
- Overnight repos with any single 'A-1' dealer are limited to no more than 25% of a fund's total assets.
- The aggregate amount of all repos with any single dealer (A-1) is limited to no more than 25% of a fund's total assets. For example, if a fund invested 20% in an overnight repo with an 'A-1' dealer, it may only invest another 5% in a term repo with that same dealer.

While we do not formally propose any diversification guidelines for overnight repos with any single 'A-1+' counterparty, we believe it is prudent for a rated fund to maintain a minimal amount of diversification, and thus we would be concerned about a fund that was comfortable holding more than 40% of its total assets in an overnight repo with any single 'A-1+' issuer or counterparty.

For purposes of these criteria, the maturity of a repo means the final maturity of the agreement. If, however, the agreement contains an unconditional put that would result in a lower effective maturity for the agreement, we will review the repo documentation to assess the unconditional nature of the put feature. We have the same criteria for both triparty and deliverable repos. Nevertheless, where a triparty repo is used, we will examine the fund adviser's procedures to assess whether the proper type and amount of collateral is received.

Our repo diversification criteria for funds rated 'AAm', 'Am', and 'BBBm' is identical to the above table except for the permitted

Table 7 Summary Of 'AAAm' Criteria For Qualifying Repurchase Agreement

Credit quality	Overnight (one day) (%)	Two to seven days (%)	More than seven days (%)
A-1+	*	25	10**
A-1	25	10	10**

*While Standard & Poor's does not formally propose any diversification guidelines for overnight repos with any single 'A-1+' counterparty, we believe it is prudent for a rated fund to maintain a minimal amount of diversification, and thus we would be concerned about a fund that was comfortable holding more than 40% in an overnight repo with any single 'A-1+' issuer or counterparty. **Aggregate exposure to term repo greater than 7 days is limited to 10%.

exposure to ‘A-2’ issuers on an overnight or one-day basis of 5% for ‘AAm’, 10% for ‘Am’, and 25% for ‘BBBm’.

To assess whether repos are properly secured, we look for certain written representations from all funds investing in repos. Regarding perfection of the fund’s security interest in repo collateral, we seek written representations that the fund takes delivery of the collateral in either of the following manners: The fund, or a third party acting solely as agent for the fund, has possession of the securities; or the securities have been legally transferred to the fund under other applicable laws, except that the fund may not enter into any hold-in-custody arrangements. In addition, we look for written representations that confirm the following:

- A written master repo (for example, the Bond Market Association standard repo form) governs all repo transactions;
- The fund takes all necessary steps to acquire and maintain a first-perfected security interest in any repo securities, any substituted securities, and all proceeds derived from the repo securities;
- For purposes of perfecting the fund’s security interest, the counterparty owns all repo securities free of any other claims;
- The fund intends to pay the purchase price for the securities, as stated in the applicable governing agreement;
- The counterparty will not incur, or allow others to incur, any equal or prior liens on the securities;
- The fund has no knowledge of any fraud involved in any of the repo transactions it undertakes.

Diversification criteria for nonqualifying repos. All repos that are not “repurchase agreements” as defined under the Bankruptcy Code and that are held by a fund that is neither a financial institution, a financial participant, nor any other entity that is entitled to benefit from special protections under the Bankruptcy Code with respect to securities contracts are considered nonqualifying repos and are subject to more restrictive diversification criteria (formerly known as the nontraditional collateral criteria).

Since these nonqualifying repos may be subject to the automatic stay or to other types of risks related to the bankruptcy of a counterparty, funds that invest in them are subject to greater liquidity and market risks than those investing in qualifying repos.

Our diversification criteria for nonqualifying repos call for the maximum exposure to any single counterparty (or broker/dealer) to be limited to 5% of total fund assets. This differs from qualifying repos, as they may comprise up to 25% per dealer depending on the credit quality of the broker/dealer.

Additionally, we consider term repo agreements beyond seven days (for both qualifying and nonqualifying repos) to be illiquid, and as such, these should be limited to no more than 10% of total fund assets. We also expect the underlying collateral in term repo agreements to be priced daily and maintained at the required collateralization levels.

Criteria for assessing the credit quality of repo counterparties

For purposes of applying our diversification criteria, we have criteria to determine the rating of repo counterparties. These criteria vary depending on whether the repos are qualifying or nonqualifying repos.

Counterparties for qualifying repos. We recognize that many stable NAV funds transact repos with unrated subsidiaries of highly rated financial institutions. For qualifying repos, we look directly to the short-term rating on the parent to determine the level of creditworthiness of unrated repo counterparties that are subsidiaries of rated entities. In establishing this criterion, we recognize that qualifying repos that are backed by collateral and benefit from special protections under the Bankruptcy Code differ from unsecured obligations.

Unrated entities that are at least 50% owned by rated parents are considered at the same investment level as the parent. Therefore, a repo transaction with an unrated broker/dealer whose parent has an ‘A-1+’ rating is assessed at ‘A-1+’ equivalent for Principal Stability fund rating purposes only. Likewise, a repo with an entity whose parent is rated ‘A-1’ is viewed as an ‘A-1’ equivalent for Principal Stability fund rating purposes only.

In the case of rated repo counterparties that have parents with higher short-term ratings, we look to the rating on the parent in assessing the proper level, provided that the subsidiary is at least 50% owned. For all other rated repo participants, the actual Standard & Poor's short-term rating applies.

Counterparties for nonqualifying repos. Our credit quality criteria for nonqualifying repos calls for the counterparties (e.g. broker/dealers) to either have an explicit issuer or counterparty rating from Standard & Poor's of 'A-1' or 'A-1+' or deemed equivalent by Standard & Poor's, or have a letter of guaranty from an 'A-1' or 'A-1+' (Standard & Poor's-rated) parent company. This differs from qualifying repos, as such repos may be transacted with unrated broker/dealers that are 50% or more owned by a parent company that is rated 'A-1' or better by Standard & Poor's to qualify for the highest three rating categories (AAAm, AAm, and Am).

Securities Lending And Reverse Repos

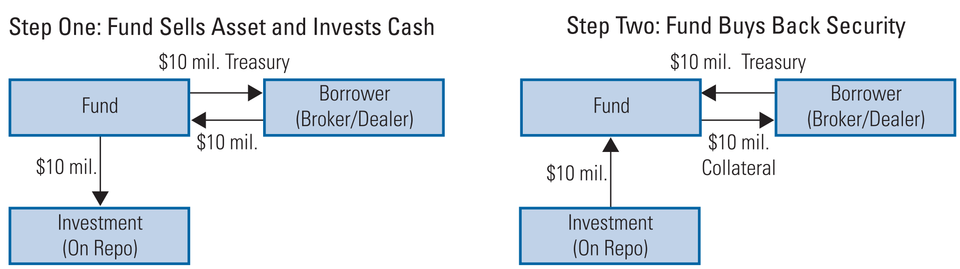
Reverse repos and securities lending are investment strategies used by some funds primarily to enhance investment income. These transactions can create risks for funds in the areas of credit and market price exposure in the form of leverage. Standard & Poor's has specific criteria concerning the lending of portfolio securities by a fund to banks and broker/dealers. The criteria apply not only to direct loans of securities but also to reverse repos.

A reverse repo is a leveraging technique in which a fund agrees to sell a security it owns while simultaneously agreeing to repurchase it at a future time. The fund takes the cash and invests it in another asset. A reverse repo is often viewed as collateralized borrowing since a fund incurs a liability and uses the security as collateral. As an example, assume a money fund owns a $10 million Treasury note and wants to borrow funds overnight. The fund will sell the $10 million Treasury note to the counterparty for settlement today. At the same time, the fund agrees to buy back the $10 million Treasury note for settlement tomorrow, plus interest. The result is that the fund has borrowed overnight funds for one day (rate times $10 million times one day/360). During the term of the reverse repo, the fund's total assets and liabilities are increased by the amount of the reverse repo, while net assets remain the same *(see chart 1)*.

The main reason for using reverse repos is to enhance income by investing borrowed cash at a higher rate than the cost to borrow (reverse repo rate). Portfolio managers also use reverse repos to provide liquidity to funds. For example, a portfolio manager may choose to raise cash via reverse repos to

Chart 1

Reverse Repo Transaction



Return: Difference between income on investment and borrowing costs.
Risks: *Counterparty:* Borrower declares bankruptcy and collateral less than value of securities sold.
Liquidity: Reversed asset tied up for term of reverse repo.
Operational: Report transaction, monitor collateral, adjust WAM.
Shareholder Disclosure: Increase in assets and liabilities.

provide liquidity, rather than having to sell securities at an inopportune time.

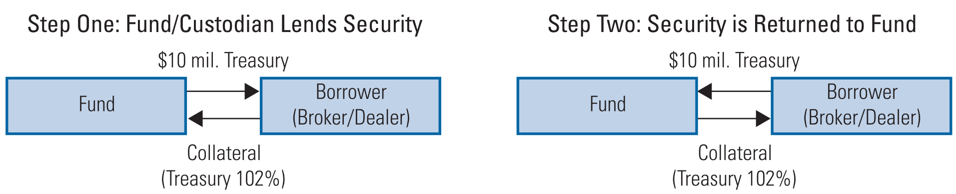
Securities lending, an investment strategy used by money fund managers to enhance income (or to lower custody expenses), can also increase the risk level of a money fund portfolio via leverage. Fund custodians typically orchestrate the securities lending process, but some larger fund companies have in-house lending operations.

Lending with securities as collateral: not leveraged

Traditionally, securities lending was viewed as a low-risk strategy with which a fund manager (via the custodian) could simply focus on the credit quality of the counterparty and the loan collateral. If a fund accepts securities as collateral, it encounters a different set of risks than it does if the fund accepts cash collateral *(see chart 2)*. In the former case, the fund (usually via the custodian) lends securities for a fee to a broker/dealer (borrower) and requires securities as collateral. The dealer provides collateral, typically in the form of Treasuries, at 102% of the loaned securities' value, which is marked to market on a daily basis. When the loan terminates (often the next day), the broker returns the securities and the fund returns the collateral. If a custodian handles the operation, the fees are split

Chart 2

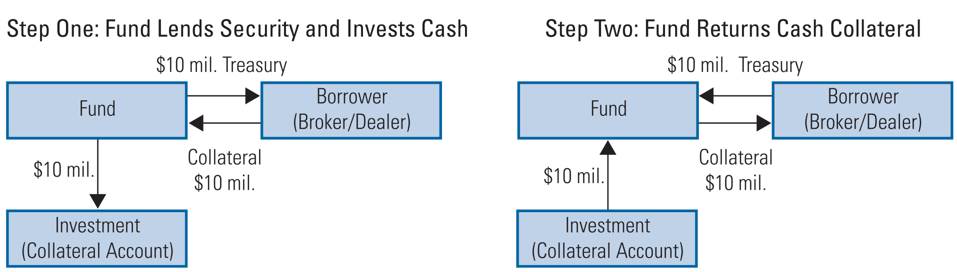
Lending For Securities Collateral: Not Leveraged



Return: Fee paid to find to borrow securities; split with custodian if custodian involved.
Risks: *Counterparty:* Borrower declares bankruptcy and collateral less than value of securities sold.
Legal: Fund not allowed to touch collateral or delays.
Liquidity: Assets tied up for term of loan.
Operational: Cost to monitor collateral.
Disclosure: Footnote on shareholder reports.

Chart 3

Lending For Cash Collateral: Leveraged



Return: Difference between investment income and loan expense; split with custodian if custodian involved.
Risks: *Counterparty:* Borrower declares bankruptcy and collateral less than value of securities.
Leverage: Need to adjust WAM for leverage.
Legal: Fund not allowed to touch collateral or delays.
Liquidity: Assets tied up for term of loan.
Operational: Cost to monitor collateral, is WAM reflected correctly.
Disclosure: Should increase assets and liabilities.

between the fund and the custodian. The major risks are that the borrower defaults or files for bankruptcy and/or that the price of the collateral drops to less than the value of the loaned securities.

Lending with cash as collateral: leveraged

Securities lending is viewed as a more aggressive strategy from an investment standpoint if cash collateral is accepted. The fund (via the custodian) lends out securities but accepts cash collateral instead of securities *(see chart 3)*. The custodian invests the cash in securities with the aim of beating the cost of the loan and splitting the income with the fund. While the income is split between the fund and the custodian, the fund bears all risks of the assets. Regardless of whether the fund or the custodian invests the cash collateral, the result is that the assets of the fund are increased—a leverage impact. This type of securities lending has a similar risk profile to reverse repos.

Reverse repurchase agreements and securities lending criteria

Standard & Poor's reverse repo and securities lending criteria take into account incremental risks associated with these strategies. The criteria focus primarily on the counterparty credit quality, the term of the transaction, and the effect that leverage has on a portfolio's WAM.

As with repos, Standard & Poor's views reverse repos and securities lending transactions as posing counterparty risk and requires

Table 8 Impact Of Redemptions On Weighted Average Maturity Of A Levered Portfolio

Redemption (%) gross	Effective leverage factor	Effects on WAM investment in overnight repo
0	1.25	60
5	1.27	64
10	1.29	69
15	1.31	74
20	1.33	80
25	1.36	82
30	1.40	84
35	1.44	87
40	1.50	90
45	1.57	94
50	1.67	100

Redemption (%) gross	Effective leverage factor	Effects on WAM investment in 30-day security
0	1.25	68
5	1.27	70
10	1.29	73
15	1.31	76
20	1.33	80
25	1.36	82
30	1.40	84
35	1.44	87
40	1.50	90
45	1.57	94
50	1.67	100

Assumptions: (1) Unlevered WAM portfolio is 60 days. (2) Initial portfolio was levered 25% of net assets. (3) Initial unlevered barbell portfolio is 50% 120-day Treasuries and 50% overnight repo. (4) Overnight repo is used to meet redemptions. (5) Effective leverage calculated immediately after redemption.

that the counterparties with which the fund engages in either reverse repo or securities lending has a short-term rating of either 'A-1' or 'A-1+' at the 'AAAm' or 'AAm' rating levels. As a general guideline, we view all investments made by the fund (related to reverse repos and securities lending) as assets of the fund. Therefore, a modified WAM is calculated. Standard & Poor's then applies its sensitivity matrix, as is done with all rated Principal Stability funds *(see table 8)*.

Standard & Poor's also takes a conservative view when analyzing the structure and term of the overall transaction. All transactions should be "matched" on both sides. For example, cash from a reverse repo with a seven-day term should be invested in a security with a seven-day maturity. Additionally, at the 'AAAm' rating level, all transactions are limited to 30 days or less. Transactions with maturities of less than or equal to seven days should not exceed 25% of the net assets of the fund. Transactions with maturities that exceed seven days cannot be more than 10% of the net assets of the fund. Since the securities that are reversed or loaned out are tied up for the term of the transaction, we view these securities as illiquid for transactions beyond seven days.

Standard & Poor's is also concerned with incremental risks associated with purchasing agency variable-rate notes with borrowed monies (via reverse repos or securities lending). To limit the potential for mismatching maturities, Standard & Poor's feels it is inappropriate for highly rated funds to invest more than 10% of borrowings in VRNs. For example, a $100 million portfolio that levers 25%, or $25 million of net assets, should limit VRNs to 10%, or $2.5 million, of the borrowed funds in VRNs. All VRN purchases should meet Standard & Poor's Principal Stability fund rating guidelines for VRNs.

The reverse repo and securities lending criteria recognize the incremental risks associated with these strategies and their effects on a fund's WAM. The following example will assist in understanding the effects that leverage can have on a fund's WAM. Assume an unlevered fund is comprised of a 60-day Treasury security, or a bullet portfolio with a WAM of 60 days. This $100 million portfolio enters into a reverse repo, or lends 25% of its assets and invests the proceeds in an overnight deposit. While this transaction is matched, Standard & Poor's also analyzes the reported effective WAM. If the overnight repo investment is included in the portfolio, the WAM (gross) could be reported as 48 days ([80% x 60 days]+[20% x one day]= 48 days). However, because the increase in assets to $125 million has a leverage effect, the WAM has to be calculated on a net basis, which is 60 days. To properly adjust the WAM, take the unlevered portfolio WAM of 60 days and add the WAM of the borrowed assets (60 +[25% x one day]). If the fund invested in a 30-day security, the fund's effective WAM would be 68 days (60 +[25% x 30]). Further, Standard & Poor's analyzed the impact of redemptions on the levered portfolios and found the WAM differences become even more significant. For example, the 60-day portfolio with 25% net leverage experiences a sharp rise in its effective WAM to 80 days following an immediate 20% redemption in assets *(see table 8)*.

Standard & Poor's expects rated funds to provide the following information with regards to securities lending and reverse repo transactions on a weekly basis:

- Gross assets (market value basis) and net assets (market).
- Percentage of fund in reverse repo and/or securities lending transactions.
- All terms of transaction and identification of all securities reversed or out on loan. These include: name of security on loan/reversed, name of security (or cash) received, term of the loan (maturity), and percentage of net and gross assets.
- Investments from transactions included in portfolio holdings reports as fund assets.
- Weighted average portfolio maturity calculation adjusted for effects of leverage.

Guaranteed Securities

If a rated fund invests in a security that possesses a guarantee from a rated third party, the rated guarantors should comply with Standard & Poor's credit criteria for the respective fund-rating category. We will also conduct a review of any guarantees to ensure they meet our minimum requirements for rated funds.

In reviewing these securities, some points of discussion may include:

- Whether the guaranty is absolute and unconditional;
- Whether the guaranty is a guaranty of payment and not of collection;
- Whether the guarantor agrees to pay the guaranteed obligations on the date due and waives demand, notice, marshalling of assets, etc.;
- Whether the guarantor's obligations are unconditional irrespective of the value, genuineness, validity, or enforceability of the underlying obligation and whether the guarantor waives all circumstance or conditions that would normally release a guarantor from its obligations;
- Whether the guarantor reinstates any guaranteed payment made by the primary obligor that is recaptured as a result of the primary obligor's bankruptcy or insolvency;
- Whether the guarantor waives its right to subrogation until the guaranteed obligations are paid in full;
- Whether the guarantor waives rights of set-off, counterclaim, etc.;
- Whether the guaranty is binding on successors of the guarantor;
- Whether the holders of the guaranteed obligations are explicit third-party beneficiaries of the guaranty;
- Whether the guaranty can be amended without the consent of the holders of the guaranteed obligations; and
- Whether the guarantor has subjected itself to jurisdiction and service of process in the jurisdiction in which the guaranty is to be performed.

Additionally, the inclusion of these securities in Standard & Poor's rated funds is based on an analysis of the fund's operating history, size, diversified shareholder base, asset diversification, cash-flow volatility, and, most importantly, management's ability to demonstrate its proficiency to manage the risk in these securities to maintain its rating.

Interfund Lending

For U.S. fund management companies that have received exemptive orders from the SEC to lend cash between funds (managed by the same investment adviser), we believe that fund managers should set prudent guidelines based on the size of the fund and the parties involved. We will evaluate the lending on a case-by-case basis and believe that adherence to the following guidelines is consistent with investment practices of highly rated funds. We look for the following:

- Opinion written by either in-house or external counsel for the fund evidencing that the fund lending cash has a lien on the borrowing funds' assets that is senior to that of fund shareholders and service providers (i.e. custodians, distributors, and investment advisers); and
- Established guidelines that specify percentages that each rated fund may lend (to each fund and in aggregate) as well as the percentages that each borrowing fund may borrow.

Additionally, rated funds should:

- Refrain from lending to funds with more than 35% emerging markets exposure;
- Refrain from lending to funds that have lost greater than 25% of their assets within the past five business days (through any combination of redemptions and market depreciation);
- Refrain from borrowing from other funds except to meet emergency liquidity needs (i.e. not to lever the fund or otherwise enhance yield);
- Provide details on the amount of money loaned at any time during the prior week, the name of the borrowing fund(s), the net asset size of the borrowing fund(s), and the maturity and interest rate terms of the loan(s). Additionally, we request that rated funds provide written notification of these policies prior to commencement of any such transactions.

Collateralized CDs

Prior to purchase and on a case-by-case basis, Standard & Poor's Principal Stability funds ratings criteria allow for limited exposure to collateralized CDs with nonrated (NR) banks or banks rated 'A-2' by Standard & Poor's based on such investments maintaining strict diversification guidelines and prudent levels of overcollateralization. When evaluating funds that invest in collateralized CDs with nonrated banks, our criteria call for each CD to be collateralized at 105%-110% based on the maturity of the security and the pricing frequency, with U.S. Treasuries or government securities and limited to 0.25% per bank and the total exposure managed below 5%. When evaluating funds that invest in collateralized CDs with banks rated 'A-2' by Standard & Poor's, our criteria call for the deposits to mature in one day (daily liquidity) and be collateralized at 101% with U.S. Treasury Securities. The collateral must be priced at least weekly, the maximum exposure must be limited to 2.5% per bank, the bank's minimum long-term rating must be 'BBB' with a stable outlook, and the total exposure must be managed below 5%.

Investing In Other Funds

Standard & Poor's Principal Stability fund ratings criteria call for rated funds that invest in other rated funds (also called Registered Investment Companies or RICs in the U.S.) to carry an identical rating. For example, a Standard & Poor's 'AAAm' fund may only invest in Standard & Poor's 'AAAm' funds. Funds registered under Rule 2a-7 are limited to a 10% investment in other Principal Stability Funds. Standard & Poor's Principal Stability Fund criteria for funds that are not registered under Rule 2a-7 (i.e. offshore funds, government investment pools, etc.) generally calls for a maximum 25% exposure to any one fund with no stated overall maximum exposure. Nevertheless, while no overall maximum is stated, we will inquire as to the feasibility of one rated fund investing a majority of its assets in other rated funds. This includes an analysis of the rated fund's position on fee rebates, since investing in another fund will ultimately cause the shareholder to be paying fees on two funds. In addition, we will review the percentage limits that the investing fund may comprise of the fund it is investing in, as it would not be prudent for the fund to invest in another rated fund if it were going to comprise a significant portion of its assets.

Deposits With Foreign Bank Branches

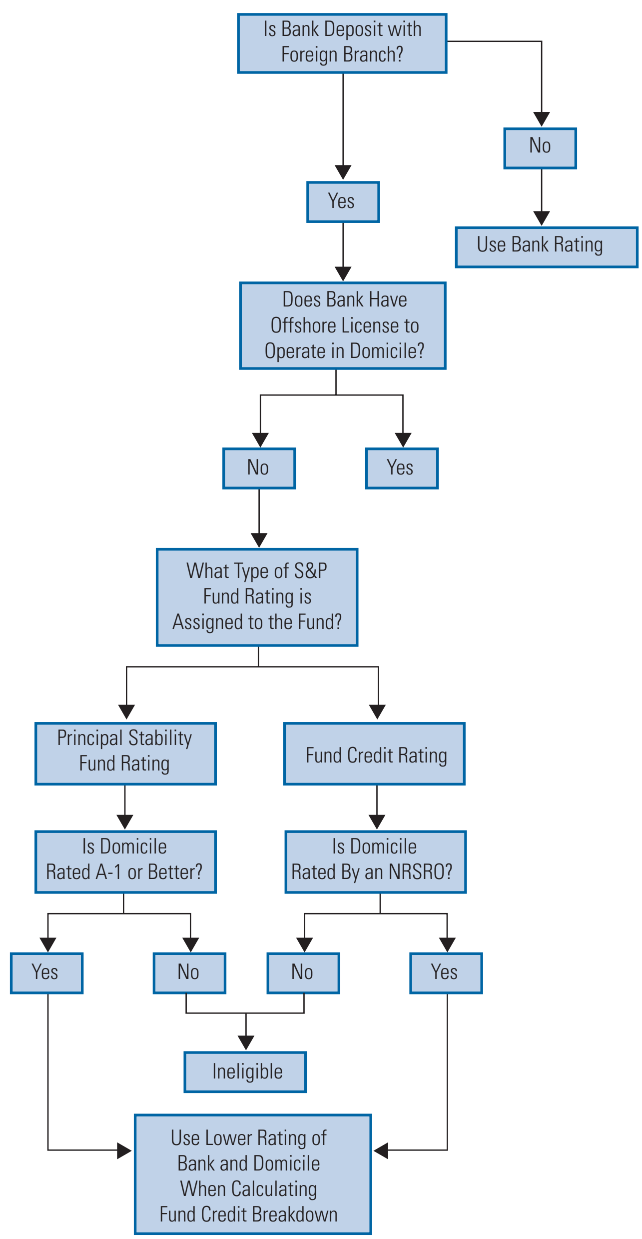
If a fund has exposure to bank obligations issued from a branch located outside the country of the rated issuer or counterparty (e.g., time deposits with a foreign branch), the sovereign risk posed by the host country must also be taken into consideration. Under corporate law, "a branch has no separate existence from the bank. However, branches are also subject to the laws of their host countries." Therefore a foreign sovereign government may affect the financial and operating environment of entities under its jurisdiction. In assessing the rating of these banks and their obligations our Financial Institutions Group considers many factors, one of which may be whether or not banks are subject to deposit freezes, debt payment moratoriums, and exchange controls that might directly prohibit their paying certain classes of liabilities. *(For more information on this topic see "Sovereign Risks and Bank Ratings" and "Sovereign Risk for Financial Institutions.")*

For the purposes of our Principal Stability Fund Ratings, bank deposits with a branch outside the parent bank's domicile should be with host sovereign countries that have a rating of at least 'A-1'. When calculating the fund's credit quality breakdown, the lower of the bank's and sovereign's ratings should be used. Obligations from a branch located in a host sovereign country that is rated below 'A-1' would be eligible if secured with a letter of guaranty by, or issued as a direct obligation of, a parent bank (issuer/counterparty) that we rate 'A-1' or 'A-1+'. An exception to this rule can be made when an offshore domicile permits banks to operate with an offshore bank license rather than a local bank license. For example, deposits in the Cayman Islands, Channel Islands, and Island of Man are situated so that U.K. law effectively governs them and money does not actually ever reside in the country in question and sovereign risk does not exist. The monetary/regulatory authorities for these domiciles regularly publish a list of banks on their websites that have obtained these offshore licenses. The atest lists can be found at a variety of sites including: www.cimoney.com, www.gfsc.gg, and www.gov.im.

Potential Limited Liquidity/ Illiquid Basket Securities

The following is a discussion of the securities that are most often included in the 10% limited liquidity/illiquid basket. For a complete list and a further explanation of the Standard & Poor's 10% limited liquidity/illiquid basket, please refer to "*10% Limited Liquidity/ Illiquid Basket*" in the "*Market Price Exposure*" section.

Treatment Of Deposits With Foreign Bank Branches



Credit-Linked Notes (CLNs)

Credit-linked notes may present funds with limited liquidity as a result of their inherent credit leverage and their dependency on a specific broker for liquidity. Given these two potential risks, credit-linked notes held by rated money market funds should mature in 13 months or less and be limited to a maximum of 5% of a fund's total assets diversified by 1% per issue and 2% per sponsor/broker. Securities sponsored by a broker/dealer that are not CLNs will not count toward this 2% limit. It is also recommended that a money market fund take the most conservative route when applying its diversification guidelines by counting the exposure to the underlying credit of a CLN (i.e., reference entity) toward their issuer diversification guidelines. All CLNs must be included in the limited liquidity/illiquid basket unless they mature in seven days or less.

Extendible Notes

Extendible notes come in many forms but can generally be classified under two broad categories based on who possesses the option to extend: the holder of the security or the issuer of the security. When comparing the two types, Standard & Poor's looks more favorably at those instruments where the holder of the securities possesses the option to extend because this option allows the holder to more actively manage the maturity risk associated with the issuer. However, for these extendible securities where the holder possesses the option, Standard & Poor's does not believe it is prudent for a fund to extend the maturity if the issuer experiences any credit deterioration, including being put on CreditWatch Negative or downgraded.

Extendible commercial notes (ECNs) where the issuer has the right to extend look very much like traditional CP, but provide a twist. Highly rated corporations issue ECNs for a finite period of time, say 90 days. They differ from CP in that the issuer, at its discretion, can extend the maturity of the note to a maximum of 390 days. The issuer has the option to call the notes at any time during the extension period. Like CP, ECNs are offered at a discount rate based on the initial maturity date. If extended, the rate becomes variable based on a spread above LIBOR. The size of this spread is dictated by the short-term credit rating of the issuer, and the spread's magnitude is designed to discourage the issuer from extending the maturity date. The benefit to the issuer is that they can issue ECNs without a backup liquidity facility. At the initial redemption date, if the issuer lacks the necessary funding to pay off the notes, it can simply extend the maturity until alternative funding is obtained.

Extension would occur when the issuer has no other viable refinancing options. This would be a precarious position for a stable NAV fund to be in, even though it receives a premium for accepting this risk. While the premium rate may seem attractive (i.e., 110% of LIBOR for 'A-1+' credits, 115% for 'A-1' credits), money funds could face liquidity and pricing problems. The fact that the issuer cannot place new CP into the market implies that the fund will have equal trouble finding buyers for its ECN position, rendering its holding illiquid. At this point, accurate pricing of the securities becomes complex, particularly given the issuer's option to call the ECNs at any time. Standard & Poor's believes that prior to purchasing these securities, money fund advisers should adopt a detailed investment policy for ECNs and be prepared to hold the securities to the extended maturity date.

For those securities where it is the issuer's option to extend the maturity, the following guidelines apply:

Extension of an ECN would only occur when an issuer experiences an adverse credit event, or if the market encountered a liquidity crunch. Therefore, if an extendible note where the issuer has the option to extend is not booked to the final maturity, Standard & Poor's Principal Stability fund criteria calls for rated money funds to book the maturity of ECNs to the initial redemption date and count them toward their 10% less liquid basket of securities. Short-term credit ratings on ECNs are treated the same as the issuer's CP ratings. (For Standard & Poor's Principal Stability fund ratings, CP issuers must be rated 'A-1' or better by Standard & Poor's). While it is considered unlikely that the issuer will extend the notes, upon extension, the rates change from fixed to variable, and money funds should calculate maturity based on final maturity date. Although interest rates for ECNs reset periodically (typically monthly) after extension occurs, calculating days to maturity by referencing the reset date is imprudent. U.S. money fund regulation permits funds to calculate maturity for variable-rate securities based on the reset date. This applies only when the market value of securities can be reasonably expected to approximate amortized cost at each reset until final maturity. If an ECN extends, the ability to project the market value of the security is likely to be materially impaired.

For information and criteria on extendible asset-backed notes, please see "*10% Limited Liquidity/Illiquid Basket*" in the "*Market Price Exposure*" section.

Funding Agreements

Funding agreements are investment contracts issued by insurance companies for the institutional marketplace. These investment contracts are popular with some money funds due to their attractive yields and put provisions. The put provision allows the owner of a funding agreement contract to receive back its investment in a specified number of days. Most money funds prefer short puts (i.e. seven or 30 days), although issuers have become reluctant in the past few years to issue funding agreements with short puts. Recently, the most common put maturities have been 180 days or one year. Floating-rate funding agreements are typically pegged to one- or three-month LIBOR, but Prime, CP composite index, and one-year constant maturity Treasury have also been used.

When evaluating funding agreements as eligible investments for Principal Stability fund ratings, Standard & Poor's considers the credit quality of the issuer (insurance company), the terms of the agreement including contract maturity, reset index rate, and frequency of rate adjustments (i.e. weekly or quarterly), and any put or demand features. In order for the funding agreement to be an eligible investment for Standard & Poor's rated stable NAV funds, the insurance company issuing the investment contract must possess an 'A-1' or 'A-1+' short-term rating from Standard & Poor's. In addition, contracts issued by a non-rated subsidiary of a rated insurance company are not eligible for rated stable NAV funds. As for the variable-rate features of the funding agreements, the reset rates should be tied to indices considered to be Principal Stability rates, such as LIBOR, Fed Funds, T-bill, and CP composite rates.

Standard & Poor's also considers the potential for credit and liquidity risks presented by these contracts. Given the illiquid nature of short-term funding agreements (i.e. no secondary market trading), contracts that include short puts and demand features offer a greater level of protection against credit deterioration of the issuing company. To provide for liquidity in the event of credit action, some funding agreements include credit event put provisions, which provide the buyer (the fund) with the ability to put back the contract to the issuing entity upon a lowering of its rating. Standard & Poor's views this feature favorably since it enhances the fund's liquidity options. Therefore, any funding agreement with an unconditional one-day or seven-day put (or a security that is due to mature in seven days or less) can be excluded from the limited liquidity basket. All other funding agreements must be included in the 10% limited liquidity/illiquid basket.

Since floating-rate funding agreements pay a variable rate of interest on periodic reset dates, U.S. money market funds can take advantage of the maturity shortening provision under Rule 2a-7. Hence, funding agreements with a one-year maturity and 30-day reset dates are treated as 30-day instruments by Principal Stability funds for purposes of calculating their average portfolio maturity. However, these securities are considered to be part of the 10% illiquid basket as per Rule 2a-7.

Master Notes And Promissory Notes

Master and promissory notes are attractive alternative investment vehicles for Principal Stability funds as they are highly customizable. The investor can select the floating-rate reset, the underlying index of the reset rate, and the maturity date(s). The investor can also vary the principal amount, alter the pricing index, and establish a put option for early maturity of the notes.

Master notes can be secured or unsecured demand notes and an investor can invest varying amounts of money at different (fixed or floating) rates of interest pursuant to arrangements with issuers. The interest rate on a master note can be fixed, based on or tied to changes in specified interest rates, or reset periodically according to a prescribed formula. Although there is no secondary market for master notes, those with demand features can provide the investor, or the fund, with liquidity (usually with relatively short notice).

Promissory notes can be secured or unsecured notes issued by corporate entities to finance short-term credit needs or operating expenditures or to retire debt. In return for the loan, companies agree to pay investors a fixed return over a set period of time. While most promissory notes are registered with the SEC and with the states in which they are sold, notes with maturities of nine months or less may be exempt from registration requirements.

Standard & Poor's Principal Stability fund rating criteria for promissory notes and master notes call for these notes to be issued by an issuer that has an explicit issuer rating or a counterparty rating of 'A-1+' or 'A-1' from Standard & Poor's. Eligible master notes or promissory notes that are not issued by a rated entity may be secured by a letter of guaranty from a parent company rated 'A-1' or 'A-1+' by Standard & Poor's.

While a majority of promissory and master notes are issued by rated issuers, some master and promissory notes are issued by unrated subsidiaries of Standard & Poor's rated entities. A comprehensive review of the ratings correlation between parent companies and their subsidiaries indicates that there is often a disparity in the credit ratings, or the creditworthiness, between a parent company and its subsidiaries. The disparity in the ratings between a parent company and its subsidiaries can be attributed to the subsidiary's domicile, regulatory environment, or the importance of the subsidiary to the parent company. Given that creditworthiness of a stable NAV fund's investments is a key element in its ability to maintain principal value and limit exposure to loss, Standard & Poor's criteria for highly rated funds require these notes to possess an explicit rating. Due to the inherent nature of these securities, unless they possess a one-day or seven-day unconditional put, they must be included in the 10% limited liquidity/illiquid basket.

Collateralized Debt Obligations

While the market for CDO paper is continuously developing, there are currently three categories of money market fund eligible securities associated with CDOs. Each of these types of money market eligible securities related to CDOs may have variations in structure, enhancement levels, and/or liquidity facilities that affect their treatment in money market funds that we rate. The three categories are:

- CP of Cashflow CDOs;
- Money Market Tranches of CDOs; and
- ABCP Conduits investing in senior tranches of CDOs.

CP of cashflow CDOs

Cashflow CDOs are essentially structured vehicles that issue different tranches of liabilities to fund the purchase of a pool of assets. Since CP issued from CDOs shares traits of both ABCP conduits and traditional cashflow CDOs, we looked at the similarities and differences of these securities to determine how they should be treated in rated money market funds. CP issued from CDOs generally has bullet maturities ranging from one to 270 days, is covered 100% by a third-party liquidity facility, and now has tranche sizes typically at $900 million or more. These securities are issued on a continuous basis and are also called ABCP of CDOs or super senior tranches of CDOs. Based on the similarities with traditional ABCP programs, CP of CDOs backed by 100% third-party liquidity support, and absent an extension feature or delayed draw, is excluded from our limited liquidity/illiquid basket. In cases where CP of CDOs have an extension feature or delayed draw feature (e.g., of two to three days), these securities can be excluded from the limited liquidity/illiquid basket if they are booked to the legal final (put/extension) maturity date.

Money market tranches of cashflow CDOs

These money market tranches are listed in a variety of ways, for example Class A-I MM, Class A-1, etc., and have slightly different characteristics than CP of CDOs. These short-term notes may have longer legal final maturities, coinciding with the payment dates of the collateral, and are typically tied to remarketing put mechanisms that allow them to be money market eligible. Nevertheless, these remarketing puts are generally tied to extension options where payment does not have to be met on the expected maturity, but rather after an extended remarketing period—in some cases after another six months. Based on these characteristics, Money Market Tranches of CDOs are counted toward our limited liquidity/illiquid basket unless they are booked to their legal final maturity date or if the liquidity facility offers full third-party committed support without extension risk.

ABCP single seller conduits investing in senior tranches of CDOs

The most common form of CP seen in rated prime/CP money market funds continues to be securities issued out of traditional ABCP conduits. In addition to programs purchasing receivables generated from trade, credit card, auto loans, auto, mortgages, etc., some single-seller programs have been established for the sole purpose of financing senior tranches of CDOs. In certain instances, the liquidity support of these ABCP conducts relies on the same remarketing put mechanism seen in some money market tranches of CDOs. Of these single seller programs solely invested in CDOs, those that rely on a remarketing put instead of traditional liquidity support are counted toward our limited liquidity/illiquid basket unless they are booked to their legal final maturity date.

Liquidity risk is paramount in the analysis to determine whether or not principal stability can be maintained. When reviewing the liquidity and specific risk of these products we examined the overall size of the market, number of dealers, program/tranche sizes, tenure in the market, liquidity facilities, and disclosure/transparency of underlying collateral. Our conclusions on the treatment of these securities in our rated funds is based on this analysis, as well as on extensive discussions with fund managers, credit/risk analysts, dealers, issuers of structured programs, and members of the Standard & Poor's Structured Finance Group. We expect all money market CDOs purchased or held by rated funds to have a current rating of 'A-1' or 'A-1+' by Standard & Poor's. Fund rating analysis and surveillance relies in part on the due diligence and ratings analysis conducted by our Structured Finance group. The structured ratings process for these securities includes a detailed review of the CDO's structural elements, credit enhancement levels, interest rate risk mitigants, liquidity provider, support levels, issuance tests, funding operations, the collateral manager, and more. ■

Tax-Exempt Money Market Funds

In addition to analyzing taxable money funds, Standard & Poor's Ratings Services analyzes tax-exempt or municipal money market funds that invest primarily in short-term municipal securities. In assigning ratings to tax-exempt money market funds, our analytical scope factors in all Nationally Recognized Statistical Rating Organization (NRSRO) ratings assigned to individual securities. This policy allows us to take a broad-based portfolio approach in analyzing all tax-exempt funds.

To rate tax-exempt money market funds that hold securities that we have not rated, we must be able to assess the funds' credit evaluation methods. Therefore, in conjunction with all ratings assigned to tax-exempt funds, we conduct a detailed review of each fund's credit analysis approach. This entails meeting with each fund's credit research staff to examine its analytical practices, procedures, and methodologies.

The analysis covers the following:

- Security evaluation;
- Market analysis;
- Security selection;
- Asset dispersion;
- Diversification;
- Pricing;
- Ongoing monitoring of credits;
- Sources of secondary market information;
- Response to distressed credit situations; and
- Dedicated resources and staff qualifications.

Discussions focus on the use of NRSRO ratings, assessments and any internal rating systems, and the process in which each fund's approved list of securities is presented and reviewed by the fund's board of directors.

Our ratings guidelines state that for a tax-exempt fund to be rated in our highest categories, all securities held by the fund should be rated either 'SP-1+' or 'A-1+' or 'SP-1' or 'A-1' or deemed equivalent by Standard & Poor's. The proportions for each rating depend on the fund's rating category; for example, all 'AAAm' rated funds should carry a minimum of 50% in 'A-1+' or equivalent securities and a maximum of 50% of 'A-1' or equivalent securities.

We have specific criteria for assessing securities rated by other NRSROs. We may haircut ratings by other NRSROs based on where each security would likely be classified under Standard & Poor's rating scale. In most cases, such a haircut would involve a drop by no more than one rating category. Nevertheless, in some sectors where we believe other NRSROs diverge significantly from our rating approach, haircuts may be more than one category. Generally, we will classify securities as lesser quality if:

- The security is within a sector or category of municipal securities where there tends to be material differences in the ratings assigned to like securities by the various NRSROs, or
- The security is within a sector or category of municipal securities in which the NRSRO(s) rating the security has limited market presence.

While unrated securities are typically assessed on a case-by-case basis, we have recently developed criteria to allow for some exposure of "nonrated" credit or liquidity enhanced securities. Please see the following section titled "Nonrated Credit or Liquidity Enhanced VRDN Policy" for more details on this process.

In considering other rating scales, we make the following distinctions:

- Securities not rated by Standard & Poor's that have been assigned the highest short-term rating by another NRSRO and have a long-term rating comparable to Standard & Poor's 'AAA' are considered our 'A-1+' equivalent for Principal Stability Rating purposes only.
- Securities not rated by Standard & Poor's that have been assigned the highest short-term rating by another NRSRO and have a long-term rating comparable to Standard & Poor's 'AA' are considered our 'A-1' equivalent for Principal Stability Rating purposes only.
- Securities not rated by Standard & Poor's that have been assigned the highest short-term rating by another NRSRO and possess credit support from an entity rated 'A-1+' by Standard & Poor's are considered our 'A-1+' equivalent for Principal Stability Rating purposes only.
- Securities not rated by Standard & Poor's that have been assigned the highest short-term rating by another NRSRO and possess credit support from an entity rated 'A-1' by Standard & Poor's are considered our 'A-1' equivalent for Principal Stability Rating purposes only.

Please refer to the "Municipal Securities Assessment Flowchart" for more details.

The criteria serve as recommended guidelines for rating tax-exempt funds. In assigning actual ratings, we base our final analytical determination on our review of each fund's portfolio management and credit research areas.

Nonrated Credit Or Liquidity Enhanced VRDN Policy

In the past, securities that were not rated by any NRSRO and only possessed a credit or liquidity enhancement were generally not considered to be consistent with our 'AAAm' tax-exempt Principal Stability Rating criteria because these securities did not undergo a structural review by any NRSRO. We formalized a policy for making exceptions to this rule to allow for some exposures (typically up to 10% but may vary based on maturity of securities) to non-rated securities in our 'AAAm' rated tax-exempt money market funds if all of the following conditions are met:

- The nonrated security possesses a credit and/or liquidity enhancement from an institution rated 'A-1' or better by Standard & Poor's;
- The investment manager (advisor) undergoes a detailed review of its credit research and analysis policies as it relates to nonrated issues.

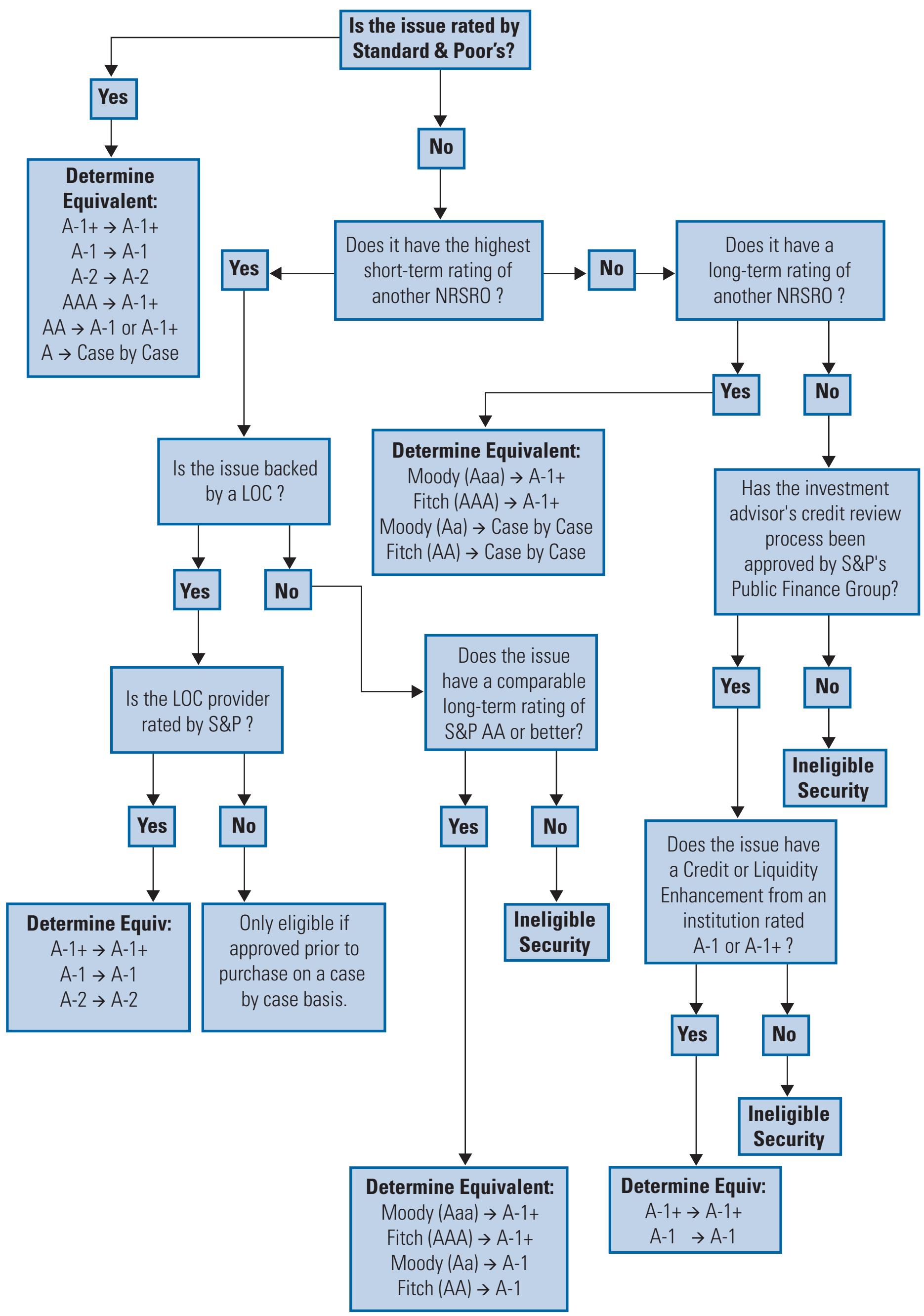
This additional assessment will be implemented upon request by the investment advisor. The review will focus on an array of issues surrounding the structures and their legal documentation. The review may include, but is not limited to, the following topics:

- Letter of Credit Analysis or Liquidity Facility Analysis (depending on the type of structure);
- Bankruptcy analysis;
- Preference proofed monies;
- Payment events;
- Required bondholder takeouts (mandatory tenders, redemptions, and acceleration);
- Bank facility drawing instructions;
- Bank document termination events;
- Reimbursement provisions; and
- Miscellaneous.

For a more expansive discussion regarding the analysis, please refer to the criteria articles entitled "Public Finance Criteria: LOC Backed Municipal Debt" and "Public Finance Criteria: Bank Liquidity Facilities", published on RatingsDirect on Oct. 13, 2006, and

Oct. 20, 2006, respectively. Additionally, the inclusion of these securities in our rated funds is based on our analysis of the fund's operating history, size, diversified shareholder base, asset diversification, cash-flow volatility, and most importantly, management's ability to demonstrate its proficiency to manage the risk inherent in these securities to maintain their Standard & Poor's rating. ■

Standard & Poor's Fund Ratings Group Municipal Security Assessment Flowchart



Principal Stability Fund Ratings Criteria For Offshore And European Money Market Funds

The following specific criterion applies to Offshore and European registered Principal Stability funds, or funds that are not subject to SEC's rule 2a-7.

Maturity Of Investments/ Offshore And European Funds

The remaining term to maturity of investments should not exceed 397 days. Nevertheless, exceptions can be permitted for securities with floating or variable rates, and for floating-rate ABS. See the criteria below for details.

Limited Liquidity Concerns For Offshore And European Funds

Standard & Poor's Ratings Services' Principal Stability Fund Ratings Criteria calls for highly rated funds to maintain at least 90% of their assets in highly liquid money market instruments, thus limiting limited liquidity/illiquid securities to no more than 10% of a fund's holdings. In addition to the list of security types specified in the Limited Liquidity/Illiquid Basket section of our principal stability ratings criteria, securities denominated in currencies other than a fund's base currency and swapped back into the base currency of the fund, and time deposits exceeding seven days to maturity are also considered to posses limited liquidity and should be considered part of the 10% limited liquidity basket. Deposits greater than seven days that possess an option by the holder to "break the deposit" without a penalty or additional cost every seven days or less, may be excluded from the 10% limited liquidity basket.

Diversification Of Offshore And European Funds

Fund diversification guidelines call for no more than 25% per issuer for securities maturing in one day (collateralized overnight repurchase agreements with 'A-1+' rated dealers are permitted up to 40%, 10% per issuer for securities maturing in seven days or less, and 5% per issuer for securities maturing in more than seven days). Maximum aggregate exposure to any one issuer is limited to 25%; for example, if a company invests 5% in CP of Issuer A, the maximum amount of overnight investments with that issuer is 20%. These guidelines apply to overnight time deposits as well.

Diversification restrictions may be adjusted for funds operating in developing money markets or those with small asset bases that reduce the maturity of these investments, and rely on the highest quality names (A-1+). OECD government issuers rated 'A-1+' by Standard & Poor's are excluded from the diversification condition, although in the case of single OECD issuers, diversification of issues should be included.

Floating/Variable Rate Securities/Offshore And European Funds

The maximum final maturity of any floating and variable-rate securities held by a 'AAAm' rated fund is limited to no more than 397 days. Nevertheless, sovereign issues rated 'AA' or better, maturing up to two years (762 days) from time of purchase, are eligible for highly rated funds. We may also consider floating-rate notes (FRNs)/variable-rate notes (VRNs) for issuers other than 'AA' rated sovereigns with final maturity greater than 397 days but no more than two years (762 days) to be eligible on a case-by-case basis. All such FRNs/VRNs must possess a Standard & Poor's short-term rating of 'A-1+'. If the issuer does not possess a short-term rating, a Standard & Poor's long-term rating of 'AA' or better is required. A fund's total holdings of all such VRNs is limited to no more than 5% per issuer and no more than 10% of net assets of the fund. This 10% limit for those floating rate/VRN securities maturing in greater than 397 days but less than two years is separate from the limited liquidity/illiquid basket described above.

These investments should be publicly issued (not privately placed) liquid issues (i.e. with established secondary market activity and readily available and accurate pricing). We will consider the extension of the maturity range of VRN holdings for rated funds based on the fund's ability to maintain ample liquidity and will consider the fund's total asset size, diversification of the shareholder base, types and liquidity of other assets held by the fund, and the fund manager's ability to perform initial and ongoing credit risk analysis on the securities in question.

Additionally, we have developed the following criteria for floating-rate ABS.

Floating-rate credit cards ABS

Our criteria enable rated money market funds to invest in certain credit card ABS with scheduled maturity dates of two years (762 days) or less as outlined below. While there is extension risk present in these securities, the risk of extension is remote. Managers of rated funds must be able to evaluate the risk of extension and analyze the credit-spread duration of the extended notes and manage these risks within the spirit of Standard & Poor's Principal Stability Fund Rating Criteria. Eligible floating-rate credit card ABS must meet all of the following characteristics:

- Issued by prime master trust programs;
- Rated 'AAA' by Standard & Poor's and not currently on CreditWatch;
- Maximum scheduled maturity* of two years (762 days);
- Maximum 5% per issuer;
- Maximum 5% per servicer;
- If expected maturity is beyond 397 days, these holdings should be counted toward the 10% limit for 397-day to two-year (762 days) FRN basket; and
- If the issue goes into amortization or if the performance of the underlying assets deteriorates, indicating a higher probability of amortization, these holdings should be counted toward the limited liquidity basket and the 10% limit for the 397-day to two-year FRN basket.

*Scheduled maturity (also called expected maturity) refers to the date written into the documentation of the credit card transaction; failure to repay principal in full by this date triggers amortization of the securities. Note, however, that nomenclature may vary from transaction to transaction.

Floating-rate auto ABS

Floating-rate auto ABS securities eligible for purchase in a highly rated Standard & Poor's money market fund must meet all of the characteristics outlined below. As with floating-rate credit card ABS, managers of Standard & Poor's-rated funds must be able to evaluate the risks associated with these securities and demonstrate their ability to manage these risks within the spirit of Standard & Poor's Principal Stability Fund Rating Criteria.

- Issued by U.S. ABS prime auto programs;
- Rated 'AAA' by Standard & Poor's and not currently on CreditWatch;
- Maximum "legal" final maturity of two years (762 days);
- Maximum 2.5% per issue/tranche;
- Maximum 5% per issuer;
- Maximum 5% per servicer;
- If legal final maturity is beyond 397 days, these holdings should be counted toward the 10% limit for 397-day to two-year (762-day) FRN basket; and

- Any exposure must be accounted for under the limited liquidity basket.

Please note that for auto ABS, "scheduled" maturity guidelines similar to those outlined for credit card ABS may be considered for approval on a case-by-case basis if the auto ABS program is set up as a master trust-type structure and other program structural characteristics have been reviewed (see comments under "Other ABS asset classes," below). European auto loan ABS may also be considered, but only on a case-by-case basis. European auto loan ABS are not as homogenous an asset class as U.S. auto loan ABS and transactions may have structural variations such as master trust structures, the inclusion of auto leases, or longer maturity guidelines for eligible loans.

Other ABS asset classes

We are comfortable extending the criteria to allow prime credit card master trust transactions, partly because of the availability of statistics on pools of credit card receivables over the significant time period from which the first credit card transactions were issued. The analysis indicates that consistently high monthly repayment rates coupled with the structural features such as amortization triggers will keep the extension risk of eligible credit card securities within acceptable limits. Securities in certain other ABS asset classes may also have scheduled or expected maturity dates shorter than two years, but legal final maturity dates beyond two years. Nevertheless, it is unlikely that we will be able to consider such securities for inclusion in rated money market funds unless there are reliable statistics on the underlying receivables during a significant period of time. In addition, the receivables should have repayment rates consistent with the short investment horizon of money market funds, and the securities should be structured in a way that limits extension risk. Lastly, all foreign floating-rate bonds should be publicly (not privately) placed liquid issues (i.e., established secondary market), and each fund should limit its exposure to the total amount of the outstanding issue.

Accumulating Net Asset Value (NAV) Funds

Like $1.00 per share NAV or principal stability ratings, Standard & Poor's accumulating NAV principal stability ratings address a fund's capacity to maintain principal stability and the fund's ability to limit exposure to principal losses due to credit, market, and/or liquidity risks.

In monitoring an accumulating fund's NAV, we review the daily published share price of each rated fund to make sure that the NAV is constantly increasing and that if there is a decrease, it does not deviate more then the following percentages from its highest point: 'AAAm', 0.15%; 'AAm', 0.20%; 'Am', 0.25%; and 'BBBm', 0.30%. If a fund's share price deviates beyond the amounts listed above, we will ask the fund for a daily pricing/marked-to-market NAV calculation. It is important to note Standard & Poor's principal stability rating on an accumulating NAV fund does not address decreases in NAV due to periodic distribution of accrued income.

In addition to receiving the daily-published share price, we request a weekly calculation of the value of assets in the fund, calculated on a marked-to-market value basis rather than an amortized cost basis. This calculation is an important element of the surveillance as this allows us to monitor the ability of the fund to repay investor's original capital, while continuing to offer yield independently. Many money-market funds in Europe accumulate rather than distribute interest, and we therefore monitor the funds' ability to maintain a continually increasing unit price. As such, we ask all rated accumulating NAV funds to calculate an equivalent stable share value (i.e. 1.00) by dividing net assets calculated on a marked-to-market value basis by net assets calculated on an amortized cost basis and express this figure to five decimal places.

Custodian

Generally, a rated fund's custodian should be rated at least 'A-2' by Standard & Poor's or be deemed equivalent to 'A-2' in consultation with Standard & Poor's fund analysts. Nevertheless, if the legal and regulatory framework for a domicile where assets held by a custodian of rated funds proves for clear segregation and protection of all fund assets, with quick and timely retrieval of those assets in the event of the custodial bank insolvency, then a lower minimum rating requirement may be acceptable for the custodial bank. Domiciles that have sufficient legal and regulatory framework in place to provide for the safety of assets held with custodians include, for example: Australia, Bermuda, Cayman Islands, Channel Islands, Ireland, Japan, Luxembourg, Mexico, the U.K., and the U.S. ■

Fund Credit Quality Rating Criteria

A Standard & Poor's Ratings Services fund credit quality rating captures a fund's overall exposure to default risk. When assigning a credit quality rating, we evaluate the fund's portfolio credit risk and conduct a qualitative assessment of fund management's credit procedures. Fund credit quality ratings are based on a credit matrix approach derived from our historical default and ratings transition studies, and a detailed examination of both a fund's management and its credit analysis. Our fund credit quality criteria call for the assets of a fund and its counterparties to be consistent with the fund credit quality rating.

The assessment is based on the credit quality and/or ratings of the investments held by the fund, as well as the credit quality of the counterparties with which the fund engages in market transactions such as swaps or repurchase agreements. To evaluate a fund's overall level of protection against losses associated with credit risk, we apply the factors and scores from the fund credit quality matrix table to the fund's portfolio holdings. These credit factors and fund credit quality ('f' subscript) scores are derived from our historical ratings stability and ratings transition studies. The credit factor for each of the long-term rating categories (e.g., 'AAA,' 'AA,' 'BBB') were derived from the singular, discrete, worst-case one-year default rates from 1981 through 2006. The matrix is essentially a set of credit factors for each rating category (e.g., 'AAA,' 'AA,' 'BBB') and a set of credit scores for each of the 'f' fund credit quality ratings categories [full categories and + (plus) and - (minus) categories]. To calculate a fund's credit score, the credit factors are applied to (multiplied by) the aggregated percentage of securities held in each rating category. The sum of the products results in the overall fund credit quality.

Maturity buckets were created for the factors of "long-term" securities, and securities maturing in one year or less. The factors for short-term rating categories were also added to the credit matrix. The credit factors for each maturity bucket range from less than 90 days, 90 days to 365 days, and greater than 365 days, and recognize that the probability of default decreases as a security nears maturity.

For ABS/MBS securities in the credit matrix, we allow the use of the three-month average weighted average life (WAL; as per the YT screen on Bloomberg) to determine the appropriate maturity bucket in the matrix. For example, if the Bloomberg three-month average WAL on a 'AAA' security is 0.23 years, it should be placed in the "less than or equal to 90 days" bucket for 'AAA' securities on the matrix as 0.23 years * 365 days = 83.95 days. For new securities, the Bloomberg WAL used to price that deal should be used until a three-month average is available.

This policy was created so that it can be consistently applied among all rated funds. We understand from our research that Bloomberg's WAL is most consistent for credit cards, autos, and CMBS, and that there is more room for managers' discretion when calculating the WAL for other mortgage related securities (pass-through MBS, Home Equity Loans, CMOs, and Manufactured Housing). Given this, Standard & Poor's Fund Rating analysts will review the systems each manager relies upon to track the cash flows and prepayment speeds of these securities when determining their WAL.

Fund credit quality ratings are different from the traditional credit ratings (e.g., issuer credit ratings) that we assign to bonds or debt issued by a corporation or issuer. The fund credit quality rating does not address a fund's ability to meet "payment obligations." Since our fund credit quality ratings only address the potential for principal losses due to credit defaults, defaulted securities should be excluded from the credit matrix calculation. *(See Appendix: Standard & Poor's Fund Credit Quality Rating Matrix page 74)*

Qualitative Credit Overlay Process

A fund's credit quality matrix score is only part of the credit quality rating equation. We also conduct face-to-face review meetings with fund management focusing on its internal credit analysis, security evaluation process, and ongoing security surveillance procedures. Once a credit score is derived from the matrix, we conduct a meeting with the fund's credit staff to examine the depth and quality of their analysis, and consistency of the approach to understand the manager's credit risk tolerance. The goals are to review the suitability of the organization's structure to meet their credit objectives; to examine their credit policies as to purpose, focus, and consistency; and to review the credit approval and surveillance process for effectiveness of policy implementation, consistency of analysis, and independence. The rating of funds managed by exceptionally strong teams may be enhanced to reflect the strength of the manager's overall credit analysis. Managers who are viewed to have particularly strong credit function will be eligible for a rating upgrade. This can take on either of two forms: the fund rating may be raised by one rating category, e.g., 'AAf+' from 'AAf'; or the manager may wish to retain the current rating and have the maximum credit score increased for the existing rating. These upgrades are granted on a case-by-case basis after a comprehensive review of the investment advisor's credit analysis and process.

Counterparty Criteria

We have established minimum credit quality guidelines for counterparties that engage in market transactions with credit-rated and volatility-rated funds. These market transactions may include, but are not limited to, repurchase agreements (repos), reverse repos, forward purchases, forward exchange contracts, swaps, and other hedging positions. A counterparty's failure to meet its obligations, which are contracted with the fund, may impair the successful outcome of its intended objectives. Due to this risk, our criteria calls for a counterparty's minimum rating to be no less than one full rating category below the fund's rating for transactions spanning one year or longer. For example, 'AAAf' rated funds would need to use 'AA' or better-rated entities for transactions equal to or greater than one year. Counterparty criteria for all rating categories are as follows:

'AAAf'—long-term transactions (e.g., one year or longer): 'AA' or better. Short-term (e.g., less than one year): 'A-2' or better for overnight transactions; 'A-1' or better for longer than overnight.

'AAf'—long-term transactions (i.e., one year or longer): 'A' or better. Short-term (i.e., less than one year): 'A-2' or better for overnight transactions; 'A-1' or better for longer than overnight.

'Af'—long-term transactions (i.e., one year or longer): 'BBB' or better. Short-term (i.e., less than one year): 'A-2' or better.

'BBBf'—long-term transactions (one year or longer): 'BBB' or better. Short-term (i.e., less than one year): 'A-3' or better.

Global Policy For The Treatment Of Non-Standard & Poor's Rated Issues In Rated Bond Funds

Since fund credit ratings reflect our opinion regarding the level of protection a fund provides against default, we must be able to assess the creditworthiness or credit exposure of all securities held by a rated fund. Securities that are not rated by us fall into two categories: securities that are rated by another nationally recognized statistical rating agency (NRSRO) and securities that are not rated by any NRSRO. We look at these two cases independently of each another.

Securities that are not rated by any rating agency must obtain a credit assessment from us and be deemed eligible on an individual case-by-case basis. Securities rated by other rating agencies, but not by us, are typically "notched down" or "haircut" for purposes of the credit matrix score. This haircut recognizes that ratings assigned by other rating agencies often diverge by up to one full rating category. Securities that are rated by NRSROs, but not rated by us, may be considered eligible if there is an analytic basis for considering these securities as having comparable credit quality. In conjunction with this analysis, we will conduct a detailed review of each fund's internal credit analysis, security evaluation, asset selection, and credit surveillance procedures. For managers with the adequate-to-strong credit analysis, securities that are not rated by us may be subject to a one-rating category haircut with the following provisions *(see "Fund Credit Ratings Flowchart for Treatment of Fixed-Income Securities Not Rated by Standard & Poor's" on pg 60)*.

Structured Finance securities that are not rated by us, but are rated by another NRSRO are haircut by three notches (or one full rating category) for purposes of the credit fund matrix to determine the fund's credit score. If the security is rated by two NRSROs, the haircut is applied from the lower of the two ratings. The only exception to this would be for investment-grade Structured Finance securities (ABS, MBS, etc.) that are rated by two NRSROs; these securities are subject to a haircut of two notches. Any specialty Structured Finance security such as stadium finance, project finance, future flow issues, and asset types listed below must be evaluated by us on a case-by-case basis to determine the appropriate haircut, given the securities credit risk.

Non-Structured Finance securities not rated by us that are rated by one NRSRO are subject to a three-notch adjustment (or one full rating category) for input into the fund credit matrix. If the security is rated by two NRSROs, the following haircut applies from the lower of the two: one notch for investment-grade bonds and two notches for noninvestment-grade bonds.

Total exposure to securities subject to haircutting in a rated bond fund should generally not exceed 25% with no more than 5% in any one issuer; however, the qualitative overlay assessment may allow for more flexible or restrictive limits depending on the analysis.

The following asset types must be reviewed by Standard & Poor's to determine the creditworthiness and credit factors on a case-by-case basis:

- Non-U.S. Structured Finance securities;
- Guaranteed securities;
- CDOs of Structured Finance and real estate securities;
- CBOs of CDOs;
- CLOs of distressed debt;
- Mutual fund fee securities;
- Catastrophe bonds;
- First-loss tranches of any securitization;
- Synthetics;
- Synthetic CBOs;
- Re-REMICs;
- Market value CDOs;
- Net interest margin securities.

Treatment of collateralized CDs

If a fund invests in nonrated CDs, the following criteria apply:

- Maximum of 10% of the portfolio;

- Collateral must be priced weekly;
- Collateral must be held in the name of the fund with the custodian.

Depending on the collateral type, the following applies:

- For U.S. Treasury or Agency collateral with a maximum final maturity of five years, only 100% collateralization is required;
- All other collateral that is not a U.S. Treasury or Agency security with a maximum maturity of five years must be rated at 'AA' by Standard & Poor's and be overcollateralized at 105%.

Funds Investing In Money Market And Bond Funds

We recognize that short duration or enhanced cash vehicles may use money market and bond funds to invest short-term assets for liquidity. As a result, we have established the following guidelines for funds investing in other funds:

If the money market fund is rated 'Am' or better, the money market fund can be considered 'AAA' equivalent for the purpose of the fund credit quality matrix and is limited to 25% per fund. Bond funds that are rated by us are eligible investments and are factored into the credit matrix according to their rating.

If the money market fund is not rated by us (either unrated or rated by another NRSRO) and is regulated under 2a-7, the money market fund should be considered 'AA' equivalent for the purpose of the credit matrix, and is limited to 5% per money fund adviser and 25% in total.

An unrated, non-2a-7 money fund is not eligible for a rated bond fund. Unrated bond funds are also ineligible for a rated bond fund.

Fund Credit Quality Ratings Definitions

'AAAf'

The fund's portfolio holdings provide extremely strong protection against losses from credit defaults.

'AAf'

The fund's portfolio holdings provide very strong protection against losses from credit defaults.

'Af'

The fund's portfolio holdings provide strong protection against losses from credit defaults.

'BBBf'

The fund's portfolio holdings provide adequate protection against losses from credit defaults.

'BBf'

The fund's portfolio holdings provide uncertain protection against losses from credit defaults.

'Bf'

The fund's portfolio holdings exhibit vulnerability to losses from credit defaults.

'CCCf'

The fund's portfolio holdings make it extremely vulnerable to losses from credit defaults.

+ or -

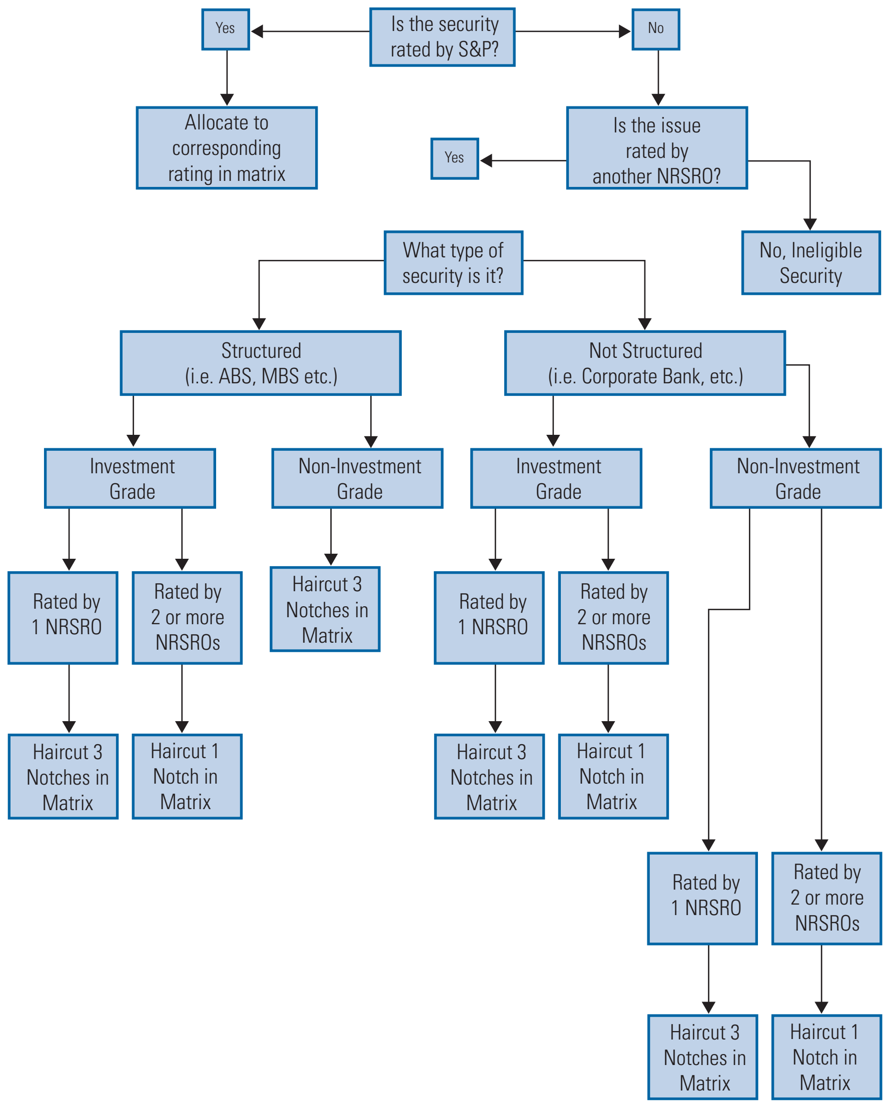
The ratings from 'AAf' to 'CCCf' may be modified by adding a plus (+) or minus (-) sign to show relative standing within the major rating categories.

A fund credit quality rating is not a recommendation to purchase, sell, or hold a security, inasmuch as it is not a comment on the market price, yield, or suitability for a particular investor. The ratings are based on current information furnished by the fund or obtained from other sources we consider reliable. We do not perform an audit in connection with any rating and may, on occasion, rely on unaudited information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Deposits With Foreign Bank Branches

If a fund has exposure to bank obligations issued from a branch located outside the country of the rated issuer or counterparty (e.g., time deposits with a foreign branch), the sovereign risk posed by the host country must also be taken into consideration. Under corporate law, "a branch has no separate existence from the bank; however, branches are also subject to the laws of their host countries." Therefore, a foreign sovereign government may affect the financial and

Fund Credit Ratings Flowchart For Treatment Of Fixed-Income Securities Not Rated By S&P



IMPORTANT NOTE: One 'Notch' means moving the rating from say BB+ to BB. A move of three notches equals one full rating category, such as BBB+ to BB+.

operating environment of entities under its jurisdiction. In assessing the rating of these banks and their obligations, our Financial Institutions group takes many factors into consideration; one such aspect may be whether or not banks are subject to deposit freezes, debt payment moratoriums, and exchanges controls that might directly prohibit their paying certain classes of liabilities. (For more information on this topic, please refer to Standard & Poor's' FI criteria entitled "Sovereign Risks and Bank Ratings" and "Sovereign Risk for Financial Institutions.")

For the purposes of our fund credit ratings, bank deposits with a branch outside the parent bank's domicile should be with host sovereign countries that are rated by an NRSRO. When calculating the fund's credit quality breakdown, the lower of the bank's and the sovereign's ratings should be used in our Fund Credit Rating matrix. (See flowchart entitled "*Treatment of Deposits with Foreign Bank Branches*" in the security-specific criteria section of this book.)

Leverage In Rated Funds

Fixed-income portfolio managers leverage portfolios by borrowing money at short-term financing rates, and investing in longer- or higher-yield securities in an attempt to increase total returns. Leverage can present more risk by increasing a fund's duration and price exposure. We have highlighted the criteria below for rated funds engaging in leverage-type transactions.

Reverse repurchase agreements and dollar rolls

In evaluating the risks to the portfolio presented by the reverse repo positions, we consider the duration risk of the collateral, as well as the duration of the securities purchased with the borrowed cash. Investments purchased through reverse repos may extend the average duration of a fund's portfolio, and thereby increase the risk-equivalent exposure in dollars. In general, an increase in a fund's leverage position will increase its risk and return exposure.

Dollar rolls are similar to reverse repo positions in the MBS market in that they allow investors to take a leveraged position in mortgages.

Our criteria for registered funds generally follow the Investment Company Act of 1940, which limits a fund's leverage to one-third of total portfolio assets. In cases where funds utilize leverage greater than one-third of total portfolio assets, our fund volatility rating analysis will reflect the increased leverage.

Futures And Options

Treasury futures and options are powerful tools that fund managers can use to adjust a fund's interest rate exposure. Futures and options can be used to take active bets on the direction of interest rates to match target duration, or to hedge an existing cash or futures position. When evaluating the volatility profile of a fund's investment portfolio, we analyze the risk presented by the duration of futures and options positions to determine how it affects the interest rate sensitivity of the fund. In addition, we require that rated funds must use recognized exchanges.

Credit Default Swaps

As the credit default swaps (CDS) market continues to grow in popularity, we have developed criteria for the treatment of CDS' in funds that have Credit Quality Ratings. This CDS fund rating criteria has been developed specifically to the quantification of CDS in our fund credit quality matrix. The following will explain how we treat both single-name CDS and iTraxx CDS Indices:

Single-name CDS

- Long risk positions will add to the overall credit score of the fund. If a manager sells protection, exposure to the reference entity increases in line with the current credit matrix. The total credit score increases by the exposure to the entity multiplied by the credit rating factor;
- Short risk positions do not detract from credit scores. If a manager purchases protection and does not hold an underlying position to the reference entity, the total credit score will not be reduced;

- Short risk positions used to hedge underlying physicals reduce credit scores. If a manager purchases protection and holds an offsetting, underlying position to the reference entity, the total credit score will be reduced.

iTraxx CDS indices

- Long risk positions will add to credit scores. Managers are required to calculate the underlying exposures through the credit matrix to come up with a credit score for the contract. For example, the current Australian iTraxx Series 5 has 25 exposures at 4% each, ranging from 'AA-' to 'BBB-'. Working the underlying reference entities through our credit matrix, a credit score of 118 is achieved;
- Short positions in an iTraxx contract for which one or more of the underlying reference names are held within the physical portfolio can be netted off if managers can demonstrate that their systems monitor and maintain the underlying iTraxx exposures;
- A short position to an iTraxx contract does not detract from the overall credit score if the manager does not hold a physical position, or if he or she is unable to track iTraxx exposures daily. *(See Appendix: Treatment of Credit Default Swap Baskets page 76)*

Diversification

We are currently evaluating the benefits of diversifying a fund's investments. The diversification of a portfolio of assets can better protect a fund from changing market conditions than a fund that is not well diversified. We are actively seeking to quantify the impact of diversification of assets in bond funds and hope to publish criteria on the subject in the near future. Look for updates on this and other criteria changes at www.standardandpoors.com. ■

Fund Volatility Rating Criteria

Standard & Poor's Ratings Services' Fund Volatility Ratings are designed to rank or designate fixed-income funds according to the degree to which they are exposed to the factors that ultimately lead to share price and return volatility. The volatility ratings scale, which ranges from 'S1' (lowest sensitivity) to 'S6' (highest sensitivity), expresses our current opinion of a fixed-income fund's sensitivity to changing market conditions. Some funds are assigned an 'S1+' volatility rating, the '+' indicating extremely low sensitivity to changes in interest rates. These funds are generally enhanced cash or "money market plus" funds. The volatility profiles of the first four categories ('S1' through 'S4') are measured and expressed on a relative basis to established government indices with different maturity bands to provide investors with market benchmarks for risk and return comparisons.

Our evaluation of funds for volatility ratings includes the following:

- Portfolio risk analysis;
- Historical return analysis; and
- Management assessment.

Portfolio risk and historical return analyses often yield similar results, and reflect a long-term commitment to a particular investment objective and risk-tolerance level by the fund's adviser and portfolio manager. Where there are significant differences between the current risk and historical return profiles, management assessment becomes particularly important. Discussions with fund management about investment policies and strategies, asset selection, internal research capabilities, and portfolio risk monitoring help us to assess the fund's current and ongoing risk profiles. The primary goal is to evaluate the adviser's effectiveness in maintaining an investment policy that is consistent with the fund's stated investment objectives and investors' expectations.

The ratings analysis focuses on measuring quantifiable portfolio risk factors including interest-rate risk, yield curve risk, credit risk, liquidity risk, options risk, and concentration risk. In addition, we evaluate the pool's total return historical volatility. This review involves two types of analysis. First, the identification centers on the level of volatility and distribution of monthly returns of the pool during a minimum of 36 months in relation to certain fixed-income asset classes and indices that we track on a continuing basis. The second analysis is focused on understanding how past volatility relates to the pool's investment objectives, the portfolio construction process (including risk controls), and the fund's outcome as a result of market developments that occurred during the period under review. The relevance of this part of the analysis in the final volatility rating will depend on the second step in the rating process, or the portfolio analysis.

Fund Volatility Ratings Definitions

'S1'

Funds that possess low sensitivity to changing market conditions are rated 'S1'. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities (government securities-for 'S1' through 'S4' categories-are intended to signify the most liquid, highest-quality securities issued by a sovereign government) maturing within one to three years and denominated in the base currency of the fund. Within this category, certain funds are designated with a plus sign (+). This indicates the fund's extremely low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of the highest-quality, fixed-income instruments with an average maturity of one year or less.

'S2'

Funds that possess low to moderate sensitivity to changing market conditions are rated 'S2'. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within three to seven years and denominated in the base currency of the fund.

'S3'

Funds that possess moderate sensitivity to changing market conditions are rated 'S3'. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within seven to 10 years and denominated in the base currency of the fund.

S4'

Funds that possess moderate to high sensitivity to changing market conditions are rated 'S4'. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing beyond 10 years and denominated in the base currency of the fund.

'S5'

Funds that possess high sensitivity to changing market conditions are rated 'S5'. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or illiquid securities.

'S6'

Funds that possess the highest sensitivity to changing market conditions are rated 'S6'. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

The ratings are based on current information furnished by the fund to us or obtained by us from other reliable sources. We do not perform an audit in connection with any rating, and may rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in availability or other circumstances. The rating is not a recommendation to purchase, sell, or hold any security, held or issued by the fund, inasmuch as it does not comment on market price, yield, or suitability for a particular investor.

The analysis of current portfolio risk is undertaken to confirm (or not confirm) the continuation of past investment policies and their attendant risks. Portfolio analysis is designed specifically to evaluate whether the fund has a greater chance of losing more money (i.e., experience greater volatility) in the short term than historical volatility of returns would suggest. An abnormal, short-term loss is one that is inconsistent with the fund's history, current market conditions, or the fund's stated investment objectives. Furthermore, while higher risk is often associated with higher returns, higher risk also means a greater uncertainty over all outcomes. Risk or volatility can manifest itself in either a continuous fashion or at discrete intervals, in which case the illusion of low volatility can often prevail for an extended period of time. For example, interest rate-sensitive funds (funds that invest in highly creditworthy securities like U.S. Treasury securities) often exhibit more volatility than funds that invest in low-grade, high-yield, or illiquid securities; however, at times, these funds can exhibit high to extremely high volatility due to investor sentiment regarding increased default or liquidity risks. Portfolio analysis often incorporates stress-testing techniques that examine the portfolio's returns (or expected returns) under various market scenarios, as well as for different portfolios. Portfolio-level risk analysis is focused on understanding the sources or factors that contribute to risk, which, for most bond funds investing in marketable fixed-income securities, includes interest-rate/option risk, credit risk, and liquidity risk.

Interest-Rate/Option Risk

Interest-rate risk refers to the fact that the longer the maturity of a security, the more uncertain and therefore more risky the present value of its cash flows. Securities with an uncertain maturity such as callable securities, or securities with embedded options (e.g., mortgage-backed bonds) are riskier than

Duration Measures Price Sensitivity To Interest Rates

Duration can be used to quantify a fixed-income fund's exposure to interest-rate risk. It is defined as an estimate of the fund's price sensitivity to a given change in interest rates. That is, for a small parallel upward/downward shift in the interest rate, the portfolio will lose/gain a percentage of its value that is approximately equal to its duration.

For example, if Fund A is a short-term treasury fund with a duration of two years, and Fund C is a long-term treasury fund with a duration of 10 years, and interest rates rise by 1% (100 bps), Fund A will lose approximately 2% in value, while Fund C will lose approximately 10% in value, all else being equal. Similarly, if interest rates decline by 1%, Fund A will gain approximately 2% in value, while Fund C will gain approximately 10% in value. The longer a fund's duration, the more sensitive it will be to changes in interest rates. Quantitatively, for small changes in interest rates, the estimation of duration (D) is defined as:

$$D = -(\Delta p/\Delta y)/p$$
$$\Delta p = p+ - p-$$
$$\Delta y = y+ - y-$$
$$\Delta = \text{Change.}$$

Duration is quoted in years because the rate shift is measured in yield, which is return per year. The symbol "p" is the current price, "p+" is the price when rates have shifted up, "p-" is the price when rates have shifted down, "y+" is the new rate when shifted up, and "y-" is the new rate when shifted down.

those with a known maturity. In addition, the distribution of a security or a fund's cash flow along the maturity spectrum (or yield curve) is as relevant as the maturity itself. A bond's interest-rate risk is best measured by its duration. Duration approximates the overall price sensitivity of the portfolio to changes in interest rates. Duration is a more precise measure of interest-rate risk than maturity because duration accounts for all of the bond's cash flow. For example, when rates rise by 0.5% [or 50 basis points (bps)], the value of a pool with a duration of four years will decrease by about 2%.

Credit And Liquidity Risks

Credit and liquidity risks are distinct, although often closely related. Credit risk refers to the possibility that an issuer may become unable or unwilling to meet its payment obligations on time or in full. Securities with higher credit risk trade on higher yields compared to lower credit risk securities, and the variations in such yield spreads are often described as spread risk. Liquidity risk refers to the possible price penalty incurred when buying or selling a particular security or asset for which there is a limited secondary market. Liquidity is also measured by how quickly a security can be sold.

We consider the effects of these risks, among others, when evaluating the overall price sensitivity of a fund. The relevant risk is the aggregate risk, measured after all diversification benefits are taken into account.

Management Assessment

Fund manager assessment is an opportunity for us to gain an in-depth understanding of different factors that could affect a fund's overall risk profile. Because fund managers can have a significant impact on the fund's

Information Needed For A Fund Credit Quality And Volatility Rating

- A letter requesting our rating;
- The most recent prospectus, statement of additional information, and any marketing materials;
- A copy of the annual report for the past year;
- A copy of the fund's investment policy, including policies concerning asset eligibility, selection, and evaluation process;
- Policies regarding repurchase agreements, including a copy of the master repurchase agreement(s) and legal representations;
- Policies concerning hedging transactions, alternative fixed-income securities, including the use options and/or futures contracts, etc.;
- Policies on leveraging portfolio assets;
- Frequency and method of securities pricing, reporting, risk controls, and oversight process;
- Monthly net asset value figures and assets for the past three years, total return numbers for the past six years (where possible);
- Proposed/current mix of shareholders (e.g., retail, institutional), and percentage of fund shares held by largest 10 shareholders;
- Current asset size or proposed asset size;
- Current list of portfolio holdings, or for new funds, a hypothetical portfolio with security descriptions, CUSIPs, ratings, and prices;
- List of securities approved for purchase according to asset type, credit quality, maturity, and sector;
- Level of insurance coverage (Fidelity Bond, Error and Omission, Director and Officer);
- A copy of the most recent SEC post-examination letter and fund adviser's response letter;
- Biographies and organizational chart of key fund employees; and
- Background materials on sponsor, company structure, related companies.

Suggested Agenda For Fund Credit Quality And Volatility Rating Management Meeting

Overview—At the firm level

1. Organization
   - History of firm
   - Assets under management
   - General expertise of firm
   - Staff size and function-organization charts
   - Role of board of directors and sponsors
   - Primary functions of key officers
   - Fund managers, traders, and research professionals' experience and background

Investment strategy/style—At the fixed-income group level

1. Basic philosophy
   - Investment and marketing strategy
2. Oversight
   - Written procedures and guidelines
   - Strategy/sector meetings
   - Index selection-oversight
   - Pricing and trading
   - Compliance
   - Backup and disaster recovery
   - History of back-office problems
3. Fixed-Income Team
   - Key people
   - Roles and responsibilities
   - Research and analysis
4. Credit Team
   - Key people
   - Organization
   - Culture
   - Process
5. Risk Management
   - Duration
   - Term structure
   - Call risk
   - Credit risk
   - Concentration
   - Strategies
   - Tools and models
   - Criteria and limits
6. Asset Type
   - MBS/CMO
   - ARM
   - Municipal
   - High-yield
   - Foreign
   - Derivatives (swaps, futures, and credit default swaps)

Daily operating procedures—At the sector/fund level

1. Activities
   - Who makes decisions
   - Trades
   - Cash-flow analysis
   - Level of liquidity determination
   - Management's view of the fund, vis-à-vis other funds
2. Liquidity
   - Portfolio mix
3. Shareholders
   - Shareholder base and account characteristics
   - Asset size volatility
   - Net redemptions

Fund specifics

1. Fund Targets
   - Objective
   - Duration
   - Maturity
   - Quality (credit rating)
   - Market sectors
   - Coupons
   - Call factors
   - Prepayments
   - Other
2. Historical Performance
3. Redemption Experience
   - Asset-size volatility
   - Net redemptions
   - Shareholder base and account characteristics
4. Daily Operating Procedures
   - Timely purchases and redemptions
   - Computer applications and adequacy of computer facilities
   - Computer backup provisions
   - Security settlement provisions

Fund governance

1. What compliance procedures are in place for the fund and fund management?
2. How often are they reviewed and updated?
3. Is there a defined risk management process in place to ensure funds are managed within their objectives and established risk parameters?

Monthly Information Needed To Monitor A Fund Credit Quality And Volatility Rating

1. Complete Portfolio Surveillance Information Sheet and submit it via our secure web-based data collection system along with the portfolio holdings report (described below).
2. Portfolio Holdings Risk Reports
   For each security provide:
   - Par value
   - Current market value
   - CUSIP number
   - Full description of investment, including issuer, interest rate, and maturity date
   - Insurer, if applicable (note: if preinsured, portfolio-insured, or second-market insured)
   - Percent of portfolio
   - Standard & Poor's rating (and whenever possible or necessary, Moody's and Fitch ratings as well).
   - Effective duration
   - Effective convexity
3. Other portfolio activities
   Please provide information on all transactions related to the fund such as:
   - Reverse repurchase agreements (include underlying collateral and terms)
   - Dollar rolls
   - Futures (list trading exchange)
   - Securities lending program (include list of securities lent out as part of program)
   - Leverage (provide the long/short securities broken out separately)
4. Acquisition/Disposition Report
   Listing of portfolio securities bought and sold throughout the month. For each security, the information listed above (par value, market value, etc.) should be specified.
5. Portfolios should be sent along with the surveillance information sheet via the secured web-based platform. (Acceptable file format: Excel or Adobe PDF)
6. Fund Changes or News
   Any additional information related to the fund's operation should be forwarded such as:
   - Changes in investment policies or operating procedures;
   - Current prospectus and statement of additional information;
   - Notification of changes to prospectus or statement of additional information;
   - Notification of fund name change or mergers;
   - Notification of changes in board of directors, senior management, investment adviser, or custodian;
   - Annual and semiannual reports; and
   - All press releases relevant to the fund.

STANDARD & POOR'S

Funds Data Collection System

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55 Water St., 33rd Floor, Fund Services—Surveillance New York, New York 10041 General Telephone: 212-438-5073, Fax 212-438-5075

Surveillance Requirements for Fund Credit Quality and Volatility Ratings

If the data is truncated on the screen please move the mouse over it to see entire text as a tooltip

S&P Surveillance
Analyst: Name Telephone 212-438-XXXX
Email: first_last@standardandpoors.com
Name of Fund: Some Fund
Portfolio Date: 1/31/2007

Please Attach Portfolio Holdings Information

<< Attach Files(s) >>

Contact Information

Name:	Some	Person
Company:	Some Company	
Tel:	555-555-5555	
Email:	someperson@someemail.com	

Fund Summary

Net Assets (US$, in millions)		**Net Asset Value** (per share)	
Market Value (US$, in millions)		**Wtd. Avg. Maturity (WAM)** (in years)	
Par Value (US$, in millions)		**Effective Duration**	
Gross Assets (US$, in millions)		**Modified Duration**	
Monthly Total Returns (%)		**Yield to Maturity** (%)	

Security Types (%)

Update Total 0.00

Add Security

Leverage as % of Net Assets

Futures	
Reverse Repo	
Securities Lending	
Uncovered Dollar Rolls	

Maturity Distribution (%)

Update Total 0.00

Add Maturity

Top Ten Holdings (%)

#	Issuer Name	% of Portfolio
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Comments (maximum 2000 characters)

S&P Ratings (%)

Rating	<=90 Days	>90 But <=365 Days	>365 Days
AAA			
AA+			
AA			
AA-			
A+			
A			
A-			
BBB+			
BBB			
BBB-			
BB+			
BB			
BB-			
B+			
B			
B-			
CCC+			
CCC			
CCC-			
A-1+			
A-1			
A/A-2			
A-/A-2			
BBB+/A-2			
BBB/A-3			
BBB-/A-3			

Update Total 0.00

Save Draft Submit Final Cancel

future risk profile, we meet with fund managers to discuss various portfolio risk-related topics. At these meetings, we look at management sophistication and experience, the quality of research support, dedication to controlling risk within established guidelines, portfolio strategies, and the frequency and extent of changes to portfolio holdings, among other factors. Even after a fund is rated, we meet with the fund managers at least annually. ■

Liquidity Assessments

Liquidity Assessments were introduced to provide issuers with a cost-effective alternative to traditional bank liquidity facilities for the provision of liquidity support for variable rate debt instruments, CP, and other types of short-term debt. Issuers have indicated that bank liquidity facilities are often expensive and can be cumbersome to administer.

Creditworthy tax-exempt debt issuers with "excess" available and highly liquid assets, sufficient to meet all debt obligations on a full and timely basis, can use their own "liquid assets" to provide liquidity support for CP and Variable Rate Demand Obligations (VRDO) tenders. During the past few years, more than 40 municipal issuers from all public finance sectors (higher education, health care, housing, state and local governments and foundations) with a surplus of high-quality, short-to-intermediate term fixed-income assets have sought to use these pools as backup liquidity support for their short-term debt issues. Issuers utilize "Liquidity Assessed" status to provide coverage for their short-term debt obligations. The excess cash not used to pay the municipality's short-term obligations can also be used to back their outstanding debt in case of a failed remarketing attempt. This option can take the place of the more traditional backing by an LOC or Standby Bond Purchase Agreement. Therefore, an issuer's liquid assets can provide a cost-effective alternative to traditional liquidity sources, and offer an added source of liquidity with the ability to leverage internal assets.

A liquidity assessment conducted by the Standard & Poor's Fund Ratings and Evaluations Group is the initial, ongoing assessment of the total liquid assets an entity has readily available that can be converted to cash to meet short-term debt obligations for failed remarketing of variable rate debt or CP. The liquidity assessment includes the following:

- An analysis of liquidity, market risk, and volatility of the issuer's current cash, fixed-income portfolio holdings, risk management, and operations;
- An assessment of management's plans to provide cash-liquidation plans-including a current maximum dollar assessment of the issuer's ability to raise cash or provide liquidity on its own; and
- Monthly monitoring of key portfolios and related data to ensure sufficiency and liquidity of assets.

The process and information needed to conduct a liquidity assessment on a tax-exempt debt issuer is outlined below. ■

Outline Of The Liquidity Assessment Process

The following steps outline the process and information required by our company to perform its initial and ongoing liquidity assessment.

Information required

1. A copy of the current investment policies for the pool of assets being pledged for liquidity including policies on hedging transactions, the use of options and/or futures contracts, and the leveraging of assets. Where necessary, the investment policies must indicate that the pool can hold securities issued by municipalities and/or its own debt;
2. A copy of the most current offering statement or offering memorandum;
3. Month end pool(s) balances for three previous years;
4. The weighted average maturities and/or durations for the fixed income assets for each month during the past three years;
5. Details on the constituents of the pool, if applicable (total number, average account size, % held by top 10 participants, mandatory versus voluntary, etc.);
6. Current list of fixed-income portfolio holdings used for self-liquidity including: CUSIP number, description, asset type, sector, price, par, maturity, and our credit rating;
7. Organizational chart and biographies of key investment personnel including telephone numbers and email addresses;
8. Documented liquidation procedures detailing the necessary steps to provide funds needed to cover the put in the event of a failed remarketing. Note: This letter should be addressed to the Public Finance/Government Ratings Lead Analyst;
9. Where necessary, a legal opinion verifying the issuer's legal ability to pledge the assets used for liquidity support.;
10. A signed letter requesting our company conduct a liquidity assessment for the Issuer. The letter should be addressed to the attention of: Gary R. Arne, Managing Director.

Management interview/meeting

When the above information is received, a meeting or conference call is held to discuss the investment management process/philosophy for the assets being used for liquidity support. Whenever possible, face-to-face meetings are conducted.

Ongoing reporting requirements

Once the initial portfolio assessment is complete, monthly surveillance reports are required to maintain current assessment of portfolio liquidity, market risk, and credit quality. These reports should contain a portfolio summary sheet, debt to asset coverage ratio, and a portfolio holdings report, which provides the following information on each holding: issuer, CUSIP, price, par, maturity, and rating. These reports should be submitted by the 15th following the last day of each month.

After a liquidity assessment is conducted and sufficient liquidity is determined, an issuer can expect the following:

- A letter (at least annually) affirming the issuer's sufficiency of assets to cover liquidity obligations;
- Ongoing surveillance of issuer's cash, and fixed-income portfolios ensuring current assessment of liquidity profile;
- Feedback from our analysts regarding availability of liquidity for current or future proposed short-term debt issuance;
- Description of issuer's liquidity profile and our rationale for the short-term rating supported by self-liquidity.

Credit Quality

Principal Stability Fund Ratings Definitions And Criteria Summary

A principal stability fund rating (also known as a money market fund rating) is not directly comparable with a bond rating due to differences in investment characteristics, rating criteria, and creditworthiness of portfolio investments. For example, a money market fund portfolio provides greater liquidity, price stability, and diversification than a long-term bond, but not necessarily the credit quality that would be indicated by the corresponding bond rating. Ratings are not commentaries on yield levels. A principal stability fund rating is not a recommendation to buy, sell, or hold the shares of a fund. Further, the rating may be changed, suspended, or withdrawn as a result of changes in or unavailability of information related to the fund.

Rating	Definitions	Minimum* 'A-1+'	Maximum 'A-2'	Maximum 'A-2'	Maximum Weighted Avg. Maturity (WAM) (Days)	Floating-Rate Note (FRN) Maximum Final Maturity
'AAAm'	Fund has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks.	50%	50%	None	60	Two years
'AAm'	Fund has very strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks.	20%	80%	5% overnight	75	Three years
'Am'	Fund has strong capacity to maintain principal stability, but is somewhat more susceptible to principal losses due to adverse credit, market, and/or liquidity risks.	None	100%	10% overnight	90	Four years
'BBBm'	Fund has adequate capacity to maintain principal stability. Nevertheless, adverse market conditions and/or higher levels of redemption activity are more likely to lead to a weakened capacity to limit exposure to principal loss as a result of higher exposure to credit, market, and/or liquidity risks.	None	100%	25% overnight	90	Five years
'BBm'	Fund has uncertain capacity to maintain principal stability, and is vulnerable to principal losses resulting from its exposures to credit, market, and/or liquidity risks.	None	None	None	120	None
'Dm'	Fund has failed to maintain principal stability resulting in a realized or unrealized loss of principal.					
'G'	The letter 'G' follows the rating symbol when a fund's portfolio consists entirely of direct U.S. government securities.					
+ or -	Ratings may be modified (except 'AAAm') to show relative standing within the rating categories.					

*Investments rated 'A-1' maturing in seven days or less can be counted toward the 'A-1+' percentage minimums.

Table 1 Standard & Poor's Fund Credit Quality Rating Matrix

To calculate a fund's credit score, multiply the % the fund holds in each bucket by the corresponding factor. Take the sum of the results to determine the fund's overall credit score. For example, if a fund held 50% in 'AAA' > 365 days, 25% in 'AA' > 365 days, and 25% in 'A+' < 90 days, the contribution to score would be 0+5+0 totaling 5, which corresponds to a 'AAAf' credit rating.

Important note: Please use legal final maturity for all securities (including floating-rate securites) or as otherwise indicated in the criteria.

	—Factors—			
Rating	**< = 90 days**	**> 90 but < = 365 days**	**> 365 days**	**Contribution to Score**
'AAA'	0.00	0.00	0.00	
'AA+'	0.00	0.00	20.00	
'AA'	0.00	0.00	20.00	
'AA-'	0.00	0.00	20.00	
'A+'	0.00	0.00	50.00	
'A'	20.00	20.00	50.00	
'A-'	20.00	20.00	50.00	
'BBB+'	20.00	50.00	250.00	
'BBB'	50.00	50.00	250.00	
'BBB-'	50.00	250.00	250.00	
'BB+'	1000.00	1000.00	1000.00	
'BB'	1000.00	1000.00	1000.00	
'BB-'	1000.00	1000.00	1000.00	
'B+'	4000.00	4000.00	4000.00	
'B'	4000.00	4000.00	4000.00	
'B-'	4000.00	4000.00	4000.00	
'CCC+'	20000.00	20000.00	20000.00	
'CCC'	20000.00	20000.00	20000.00	
'CCC-'	20000.00	20000.00	20000.00	
'A-1+'	0.00	0.00		
'A-1'	0.00	0.00		
'A/A-2'	20.00	20.00		
'A-/A-2'	20.00	20.00		
'BBB+/A-2'	20.00	50.00		
'BBB/A-2'	50.00	50.00		
'BBB/A-3'	50.00	50.00		
'BBB-/A-3'	50.00	250.00		
Totals =				0.00

Table 2 Scoring Table

Scores	Rating	Fixed Score
0 - 7	‘AAAf’	7
8 - 10	‘AA+f’	10
11 - 20	‘AAf’	20
21 - 25	‘AA-f’	25
26 - 35	‘A+f’	35
36 - 50	‘Af’	50
51 - 90	‘A-f’	90
91 - 150	‘BBB+f’	150
151 - 250	‘BBBf’	250
251 - 450	‘BBB-f’	450
451 - 775	‘BB+f’	775
776 - 1000	‘BBf’	1000
1001 - 1850	‘BB-f’	1850
1851 - 2520	‘B+f’	2520
2521 - 4000	‘Bf’	4000
4001 - 7800	‘B-f’	7800
7801 - 14700	‘CCC+f’	14700
14700 +	‘CCCf’	20000

Treatment of Credit Default Swaps

Entity	Weight (%)	Rating	Matrix weight	Score
Amcor Ltd.	4	BBB	250	10
AMP Group Holdings Ltd.	4	A	50	2
Australia and New Zealand Banking Group Ltd. (NZ Branch)	4	AA-	20	1
BHP Billiton Ltd.	4	A+	50	2
Coles Myer Finance (U.S.A.) Ltd.	4	BBB	250	10
CSR Ltd.	4	BBB+	250	10
Foster's Group Ltd.	4	BBB	250	10
GPT Group	4	BBB+	250	10
Lend Lease Corp. Ltd.	4	BBB-	250	10
Macquarie Bank Ltd.	4	A	50	2
National Australia Bank Ltd.	4	AA-	20	1
Publishing and Broadcasting Ltd.	4	A-	50	2
Qantas Airways Ltd.	4	BBB+	250	10
QBE Insurance Group Ltd.	4	A-	50	2
Rinker Group Ltd.	4	BBB+	250	10
Rio Tinto Ltd.	4	A+	50	2
SingTel Optus Pty Ltd.	4	A+	50	2
St.George Bank Ltd.	4	A+	50	2
Telecom Corp. of New Zealand Ltd.	4	A	50	2
Telstra Corp. Ltd.	4	A	50	2
The Australian Gas Light Company	4	BBB	250	10
Wesfarmers Ltd.	4	A-	50	2
Westfield Group	4	A-	50	2
Westpac Banking Corp.	4	AA-	20	1
Woolworths Ltd.	4	A-	50	2
Total score				118

Standard & Poor's
55 Water Street
New York, NY 10041

Confirmed Redemptions
6/7/2007

Days to Withdrawal	Redemption Date	Total Funds Pending Redemption
1	June 7, 2007	$28,415.33
2	June 8, 2007	$1,275,225.97
3	June 9, 2007	Weekend
4	June 10, 2007	Weekend
5	June 11, 2007	$403,200.48 ✓
6	June 12, 2007	$2,900,188.00 ✓
7	June 13, 2007	$1,355,585.74 ✓

Total Funds To Be Redeemed In 7 Days $5,962,615.52

THE ***ILLINOIS*** *FUNDS*

June 6, 2007

Daily Fund Profile

Money Market Fund

Net Asset Value	$1.00
Net Portfolio Assets Outstanding	$5,519,985,085.20
Reinvestment of monthly dividends (Last business day of the month)	$0.00
Net Participant Assets Outstanding	$5,519,985,085.20

Average Weighted Maturity 6/6/2007 2 Days

Date	Income Gross of Fees	Income Net of Fees	Per Unit Factor Net of Fees	1- Day Yield Gross of Fees	1 - Day Yield Net of Fees
6-Jun-07	$784,737.95	$770,538.20	0.0001395906	5.18895%	5.095%

Prime Fund

Net Asset Value	$1.00
Net Portfolio Assets Outstanding	$1,284,980,054.09
Reinvestment of monthly dividends (Last business day of the month)	$0.00
Net Participant Assets Outstanding	$1,284,980,054.09

Average Weighted Maturity 6/6/2007 16 Days

Date	Income Gross of Fees	Income Net of Fees	Per Unit Factor Net of Fees	1- Day Yield Gross of Fees	1 - Day Yield Net of Fees
6-Jun-07	$186,860.90	$183,430.74	0.0001427499	5.30780%	5.210%

usbank
Five Star Service Guaranteed

ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT PERIOD	PAGE
06680503	04/01/07 TO 04/30/07	1

THE ILLINOIS FUNDS
MONEY MARKET FUND
CUSTODY

YOUR ACCOUNT ADMINISTRATOR IS
RHONDA S ETHELL
217-753-7569

YOUR PORTFOLIO MANAGER IS
TFM DEFAULTED ACCOUNTS - BKUP
0

PORTFOLIO SUMMARY

ASSETS	04/01/07 VALUE	%	04/30/07 VALUE	%
CASH AND EQUIVALENTS	$5066688857	97.47%	$5391606519	97.58%
CERT. OF DEPOSIT	81,710,000	1.57%	83,710,000	1.52%
FIXED INCOME FUNDS	50,000,000	0.96%	50,000,000	0.90%
MARKET VALUE	$5198398857		$5525316519	

INCOME SUMMARY

INCOME	THIS PERIOD	FISCAL YEAR-TO-DATE
TAX EXEMPT INTEREST	0.00	0.00
TAXABLE INTEREST	24,003,591.22	90,750,960.37
DIVIDENDS	0.00	0.00
OTHER INCOME	0.00	0.00
TOTAL INCOME	24,003,591.22	90,750,960.37

TRANSACTION SUMMARY

BEGINNING MARKET VALUE	$5198398857.08
INCOME	24,003,591.22
PAID TO/FOR BENEFICIARIES	-0.02
TAXES PAID	0.00
FEES AND EXPENSES	0.00
OTHER RECEIPTS AND DISBURSEMENTS (NET)	302,914,070.76
CHANGE IN INVESTMENT VALUE	0.00
MARKET VALUE AS OF 04/30/07	$5525316519.04

CAPITAL GAINS SUMMARY

	THIS PERIOD	FISCAL YEAR-TO-DATE
LONG-TERM GAINS	0.00	0.00
LONG-TERM LOSSES	0.00	0.00
SHORT-TERM GAINS	0.00	0.00
SHORT-TERM LOSSES	0.00	0.00
NET GAINS/LOSSES	0.00	0.00
	BY SETTLEMENT DATE	BY TRADE DATE

ACCOUNT FISCAL YEAR END: 12/31/07

280238066805030000078015911873

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ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT AS OF	PAGE
06680503	4/30/07	2

ASSET STATEMENT

SHARES OR PAR VALUE	DESCRIPTION			MARKET VALUE UNIT	MARKET VALUE TOTAL	PERCENT OF TOTAL	TAX COST UNIT	TAX COST TOTAL	EST CURRENT YIELD	ESTIMATED ANNUAL INCOME
	CASH EQUIVALENTS									
25,000,000.00	AIM SHORT-TERM INVTS TREAS PT INSTL			1.00	25,000,000	0.45%	1.00	25,000,000	0.00%	0
22,638,087.20	FIN'L SQ TREAS OBLIG FD (IL)			1.00	22,638,087	0.41%	1.00	22,638,087	5.10%	1,154,542
22,158,666.39	FIRST AMER TREASURY OBLIG CL Z			1.00	22,158,666	0.40%	1.00	22,158,666	5.08%	1,124,976
371,809,765.45	MILESTONE TREAS OBLG PT INST			1.00	371,809,765	6.73%	1.00	371,809,765	5.03%	18,702,031
200,000,000.00	REPO BARCLAYS	5.100%	5/01/07	100.00	200,000,000	3.62%	100.00	200,000,000	5.10%	10,200,000
800,000,000.00	REPO BEAR STEARNS	5.120%	5/01/07	100.00	800,000,000	14.48%	100.00	800,000,000	5.12%	40,960,000
250,000,000.00	REPO BMO NESBITT	5.020%	5/01/07	100.00	250,000,000	4.52%	100.00	250,000,000	5.02%	12,550,000
800,000,000.00	REPO GREENWICH	5.110%	5/01/07	100.00	800,000,000	14.48%	100.00	800,000,000	5.11%	40,880,000
800,000,000.00	REPO HSBC	5.120%	5/01/07	100.00	800,000,000	14.48%	100.00	800,000,000	5.12%	40,960,000
800,000,000.00	REPO MIZUHO	5.120%	5/01/07	100.00	800,000,000	14.48%	100.00	800,000,000	5.12%	40,960,000
500,000,000.00	REPO MORGAN STANLEY	5.100%	5/01/07	100.00	500,000,000	9.05%	100.00	500,000,000	5.10%	25,500,000
800,000,000.00	REPO UBS	5.120%	5/01/07	100.00	800,000,000	14.48%	100.00	800,000,000	5.12%	40,960,000
	TOTAL				$5391606519	97.58%		$5391606519	5.08%	$273951550
	CERTIFICATES OF DEPOSIT									
300,000.00	F & M STATE BK C D	5.100%	5/03/07	100.00	300,000	0.01%	100.00	300,000	5.10%	15,300
8,000,000.00	PRKWY BNK & TR C D	5.160%	5/04/07	100.00	8,000,000	0.14%	100.00	8,000,000	5.16%	412,800
2,000,000.00	FIRST C D#04521C01	5.160%	5/11/07	100.00	2,000,000	0.04%	100.00	2,000,000	5.16%	103,200
700,000.00	GALENA ST #20905C03	5.160%	5/11/07	100.00	700,000	0.01%	100.00	700,000	5.16%	36,120
500,000.00	FIRST BK #24800C06	5.230%	5/14/07	100.00	500,000	0.01%	100.00	500,000	5.23%	26,150
1,000,000.00	T & C BANK C D	5.300%	5/15/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.30%	53,000
5,000,000.00	MARINE BK #47135C01	5.300%	5/16/07	100.00	5,000,000	0.09%	100.00	5,000,000	5.30%	265,000
1,800,000.00	DUQUION #16908C01	5.330%	6/04/07	100.00	1,800,000	0.03%	100.00	1,800,000	5.33%	95,940
500,000.00	FIRST 24800C01	5.260%	6/04/07	100.00	500,000	0.01%	100.00	500,000	5.26%	26,300
500,000.00	GERMANTOWN TRUST &	5.480%	6/05/07	100.00	500,000	0.01%	100.00	500,000	5.48%	27,400
400,000.00	NATL BK OF EARLVILLE	5.250%	6/06/07	100.00	400,000	0.01%	100.00	400,000	5.25%	21,000
1,000,000.00	NATL CD#48208C02	5.280%	6/06/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.28%	52,800
800,000.00	FNB #1625C02	5.290%	6/14/07	100.00	800,000	0.01%	100.00	800,000	5.29%	42,320
1,000,000.00	COMM BK #51655C03	5.360%	6/20/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.36%	53,600
5,000,000.00	WEST SUB #30052C01	5.240%	6/20/07	100.00	5,000,000	0.09%	100.00	5,000,000	5.24%	262,000
95,000.00	FIRST FED SAVING C D	5.230%	6/25/07	100.00	95,000	0.00%	100.00	95,000	5.23%	4,969
10,000,000.00	FST MID 51404C01	5.280%	7/03/07	100.00	10,000,000	0.18%	100.00	10,000,000	5.28%	528,000
8,500,000.00	LAKE BANK CHICAGO C	5.280%	7/05/07	100.00	8,500,000	0.15%	100.00	8,500,000	5.28%	448,800
1,000,000.00	GALENA C D #20905C01	5.290%	7/06/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.29%	52,900
500,000.00	FIRST BANK HGHLD C D	5.330%	7/12/07	100.00	500,000	0.01%	100.00	500,000	5.33%	26,650

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Five Star Service Guaranteed

ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT AS OF	PAGE
06680503	4/30/07	3

ASSET STATEMENT

SHARES OR PAR VALUE	DESCRIPTION			MARKET VALUE UNIT	MARKET VALUE TOTAL	PERCENT OF TOTAL	TAX COST UNIT	TAX COST TOTAL	EST CURRENT YIELD	ESTIMATED ANNUAL INCOME
300,000.00	IROQUOIS C D	5.470%	7/12/07	100.00	300,000	0.01%	100.00	300,000	5.47%	16,410
500,000.00	STATE C D 13206C03	5.430%	7/19/07	100.00	500,000	0.01%	100.00	500,000	5.43%	27,150
1,000,000.00	PAIRIE NAT 47555C02	5.200%	7/24/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.20%	52,000
2,000,000.00	SOUTH SIDE 40408C01	5.280%	7/25/07	100.00	2,000,000	0.04%	100.00	2,000,000	5.28%	105,600
95,000.00	WABASH BK #34733C01	5.330%	8/02/07	100.00	95,000	0.00%	100.00	95,000	5.33%	5,064
6,000,000.00	BANCO POPLR 08930C01	5.310%	8/03/07	100.00	6,000,000	0.11%	100.00	6,000,000	5.31%	318,600
100,000.00	AMERICAN	5.280%	8/10/07	100.00	100,000	0.00%	100.00	100,000	5.28%	5,280
400,000.00	ANNA NATIONAL BK C D	5.290%	8/10/07	100.00	400,000	0.01%	100.00	400,000	5.29%	21,160
300,000.00	FIRST NAT 34603C01	5.280%	8/10/07	100.00	300,000	0.01%	100.00	300,000	5.28%	15,840
5,000,000.00	UNITED CMNTY BK #082	5.260%	8/10/07	100.00	5,000,000	0.09%	100.00	5,000,000	5.26%	263,000
250,000.00	AMERICAN # 47984C06	5.320%	8/16/07	100.00	250,000	0.00%	100.00	250,000	5.32%	13,300
100,000.00	STATE C D#09357C02	5.290%	8/28/07	100.00	100,000	0.00%	100.00	100,000	5.29%	5,290
3,000,000.00	EDGAR CNTY 39354C01	5.290%	9/05/07	100.00	3,000,000	0.05%	100.00	3,000,000	5.29%	158,700
1,000,000.00	PRAIRIE C D #4755	5.290%	9/06/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.29%	52,900
300,000.00	AMERICAN BANK C D	5.220%	9/12/07	100.00	300,000	0.01%	100.00	300,000	5.22%	15,660
95,000.00	CORN BELT # 36102C06	5.240%	9/14/07	100.00	95,000	0.00%	100.00	95,000	5.24%	4,978
500,000.00	MARSHALL#49906C02	5.230%	9/14/07	100.00	500,000	0.01%	100.00	500,000	5.23%	26,150
500,000.00	MARSHAL C D#49906C03	5.240%	9/18/07	100.00	500,000	0.01%	100.00	500,000	5.24%	26,200
100,000.00	AMERICAN #08734C02	5.330%	9/19/07	100.00	100,000	0.00%	100.00	100,000	5.33%	5,330
500,000.00	AMERICAN #47984C13	5.240%	9/19/07	100.00	500,000	0.01%	100.00	500,000	5.24%	26,200
425,000.00	INTL BK #10474C03	5.230%	9/21/07	100.00	425,000	0.01%	100.00	425,000	5.23%	22,228
1,250,000.00	NATIONAL BK#48208C03	5.220%	9/21/07	100.00	1,250,000	0.02%	100.00	1,250,000	5.22%	65,250
200,000.00	CORN BELT #36102C05	5.230%	9/25/07	100.00	200,000	0.00%	100.00	200,000	5.23%	10,460
1,000,000.00	INTL BK #10474C05	5.370%	11/02/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.37%	53,700
1,500,000.00	INTL BK OF CHICAGO	5.310%	11/09/07	100.00	1,500,000	0.03%	100.00	1,500,000	5.31%	79,650
1,000,000.00	CNB CD#06600C01	5.260%	12/04/07	100.00	1,000,000	0.02%	100.00	1,000,000	5.26%	52,600
2,100,000.00	FIRST C D#34050C01	5.250%	2/04/08	100.00	2,100,000	0.04%	100.00	2,100,000	5.25%	110,250
600,000.00	STATE #13206C01	5.290%	2/04/08	100.00	600,000	0.01%	100.00	600,000	5.29%	31,740
250,000.00	AMERICAN HEARTLAND	5.300%	2/15/08	100.00	250,000	0.00%	100.00	250,000	5.30%	13,250
1,500,000.00	INTL BK C D#10474C04	5.350%	3/14/08	100.00	1,500,000	0.03%	100.00	1,500,000	5.35%	80,250
3,000,000.00	UNITD COM #08257C05	5.270%	4/08/08	100.00	3,000,000	0.05%	100.00	3,000,000	5.27%	158,100
250,000.00	AMERICAN HEARTLAND	5.200%	4/24/08	100.00	250,000	0.00%	100.00	250,000	5.20%	13,000
	TOTAL				83,710,000	1.52%		83,710,000	5.27%	4,409,538

FIXED INCOME ASSETS

FIXED INCOME FUNDS

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Five Star Service Guaranteed

ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT AS OF	PAGE
06680503	4/30/07	4

ASSET STATEMENT

SHARES OR PAR VALUE	DESCRIPTION	MARKET VALUE UNIT	MARKET VALUE TOTAL	PERCENT OF TOTAL	TAX COST UNIT	TAX COST TOTAL	EST CURRENT YIELD	ESTIMATED ANNUAL INCOME
50,000,000.00	FEDERATED FUNDS TREASURY OBLIG #68	1.00	50,000,000	0.90%	1.00	50,000,000	0.00%	0
	TOTAL		50,000,000	0.90%		50,000,000	0.00%	0
	TOTAL FIXED INCOME ASSETS		50,000,000	0.90%		50,000,000	0.00%	0
	TOTAL MARKET VALUE		$5525316519.	100.00%		$5525316519.	5.04%	$278361087.
	PRINCIPAL CASH		0			0		
	TOTAL PRINCIPAL INVESTMENTS		$5525316519.			$5525316519.		
	INCOME CASH		0			0		
	TOTAL ACCOUNT		$5525316519.			$5525316519.		$278361087.

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Five Star Service Guaranteed

ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT PERIOD	PAGE
06680503	04/01/07 TO 04/30/07	75

TRANSACTION DETAIL

DATE	DESCRIPTION	INCOME CASH	PRINCIPAL CASH	TAX COST	REALIZED GAIN/LOSS
04/30/07	INTEREST EARNED ON REPO MORGAN STANLEY 5.110% 4/30/07 800,000,000 PAR VALUE AT 100 %		340,666.67		
04/30/07	MATURED 550,000,000 PAR VALUE OF REPO UBS 5.110% 4/30/07 550,000,000 PAR VALUE AT 100 %		$550000000.00	$550000000.00-	0.00
04/30/07	INTEREST EARNED ON REPO UBS 5.110% 4/30/07 550,000,000 PAR VALUE AT 100 %		234,208.33		
04/30/07	MATURED 250,000,000 PAR VALUE OF REPO BMO NESBITT BUR 5.120% 4/30/07 250,000,000 PAR VALUE AT 100 %		$250000000.00	$250000000.00-	0.00
04/30/07	INTEREST EARNED ON REPO BMO NESBITT BUR 5.120% 4/30/07 250,000,000 PAR VALUE AT 100 %		106,666.67		
04/30/07	MATURED 175,000,000 PAR VALUE OF REPO BANC OF AMERICA 5.000% 4/30/07 175,000,000 PAR VALUE AT 100 %		$175000000.00	$175000000.00-	0.00
04/30/07	INTEREST EARNED ON REPO BANC OF AMERICA 5.000% 4/30/07 175,000,000 PAR VALUE AT 100 %		72,916.67		
04/30/07	PURCHASED 800,000,000 PAR VALUE OF REPO BEAR STEARNS 5.120% 5/01/07 800,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		800000000.00-	800,000,000.00	
04/30/07	PURCHASED 500,000,000 PAR VALUE OF REPO MORGAN STANLEY 5.100% 5/01/07 500,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		500000000.00-	500,000,000.00	
04/30/07	PURCHASED 800,000,000 PAR VALUE OF REPO HSBC 5.120% 5/01/07 800,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		800000000.00-	800,000,000.00	

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Five Star Service Guaranteed

ACCOUNT STATEMENT

ACCOUNT NUMBER	STATEMENT PERIOD	PAGE
06680503	04/01/07 TO 04/30/07	76

TRANSACTION DETAIL

DATE	DESCRIPTION	INCOME CASH	PRINCIPAL CASH	TAX COST	REALIZED GAIN/LOSS
04/30/07	PURCHASED 800,000,000 PAR VALUE OF REPO UBS 5.120% 5/01/07 800,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		800000000.00-	800,000,000.00	
04/30/07	PURCHASED 800,000,000 PAR VALUE OF REPO GREENWICH 5.110% 5/01/07 800,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		800000000.00-	800,000,000.00	
04/30/07	PURCHASED 800,000,000 PAR VALUE OF REPO MIZUHO 5.120% 5/01/07 800,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		800000000.00-	800,000,000.00	
04/30/07	PURCHASED 200,000,000 PAR VALUE OF REPO BARCLAYS 5.100% 5/01/07 200,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		200000000.00-	200,000,000.00	
04/30/07	PURCHASED 250,000,000 PAR VALUE OF REPO BMO NESBITT 5.020% 5/01/07 250,000,000 PAR VALUE AT 100 % REPO FOR IL FUNDS		250000000.00-	250,000,000.00	
	NET SALES IN MONEY MARKET FUNDS		14,177,344.90	14,177,344.90-	
04/30/07	BALANCES CARRIED FORWARD	$0.00	$0.00	$5525316519.04	

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End of Week

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71391[redacted]	[redacted] TOWNSHIP	32,855.46	107/05/31	107/05/31	197.21
71391[redacted]	[redacted] TOWNSHIP	27,258.40	107/05/31	107/05/31	154.78
71391[redacted]	[redacted] TOWNSHIP	14,336.03	107/05/31	107/05/31	61.59
71391[redacted]	[redacted] TOWNSHIP	84,799.07	107/06/01	107/05/31	371.39
71391[redacted]	[redacted] TOWNSHIP	71,172.59	107/05/31	107/05/31	339.24
71391[redacted]	[redacted] VILLAGE OF	181,492.07	107/05/31	107/05/31	778.11
71391[redacted]	[redacted] OWNSHIP	9,502.12	107/05/31	107/05/31	46.89
71391[redacted]	[redacted] OWNSHIP	.00	104/01/07	103/11/30	.03
71391[redacted]	[redacted] TOWNSHIP	7,775.09	107/05/31	107/05/31	33.40
71391[redacted]	[redacted] TOWNSHIP	9,584.24	107/05/31	107/05/31	41.17
71391[redacted]	[redacted] VILLAGE OF	8,461.57	107/05/31	107/05/31	33.45

5872 COM[redacted] 0094[redacted]ROC GRP ID01 THE ILLINOIS FUNDS RUN DATE 107/06/02 04:52 PAGE 1

ALPHA TRIAL EFF DATE 107/06/01

AC[redacted]	NAME	CURRENT BALANCE	LAST ACTY	LAST DEP	AMOUNT LAST DEP
71391[redacted]	[redacted] AGE OF	5,627.03	107/05/31	107/05/31	29.93
71391[redacted]	[redacted] AGE OF	13,145.12	107/05/31	107/05/31	59.01
71391[redacted]	[redacted] LAGE OF	224,881.17	107/05/31	107/05/31	976.96
151600[redacted]	[redacted] LAGE OF	31.86	107/05/31	107/05/31	1.86
151600[redacted]	[redacted] LAGE OF	31.82	107/05/31	107/05/31	1.82
151600[redacted]	[redacted] LAGE OF	.05	107/05/31	107/05/31	.05
7139[redacted]	[redacted] MULTITOWNS	1,913.97	107/05/31	107/05/31	9.99
7139[redacted]	[redacted] R PARK D	822,041.31	107/06/01	107/06/01	132,315.57
151600[redacted]	[redacted] HIP	499,900.79	107/06/01	107/06/01	388,258.47
151600[redacted]	[redacted] HIP	41,463.22	107/06/01	107/06/01	10,600.97
151600[redacted]	[redacted] HIP	80,319.06	107/05/31	107/05/31	384.32
151600[redacted]	[redacted] HIP	30,646.97	107/06/01	107/06/01	27,827.44
151600[redacted]	[redacted] HIP	102,502.92	107/06/01	107/05/31	503.59
7139[redacted]	[redacted] FIRE PROT DIST	5,541.16	107/05/31	107/05/31	23.80
251600[redacted]	[redacted] FIRE PROT DIST	1,256,559.17	107/05/31	107/05/31	5,530.13
7139[redacted]	[redacted] COMM UNIT DIST	925,186.10	107/05/31	107/05/31	3,905.67
151600[redacted]	[redacted] CUSD #115	.00			.00
151600[redacted]	[redacted] CUSD 115	.00			.00
7139[redacted]	[redacted] ON PUBLIC LIB	182,134.24	107/05/31	107/05/31	767.08
7139[redacted]	[redacted] ON PUBLIC LIB	91,729.77	107/05/31	107/05/31	394.76
7139[redacted]	[redacted] ON PUBLIC LIB	277,259.62	107/05/31	107/05/31	1,192.45
151600[redacted]	[redacted] ON PUBLIC LIBRAR	203.78	107/05/31	107/05/31	.84
7139[redacted]	[redacted] ON TOWNSHIP	8,597,928.92	107/05/31	107/05/31	36,735.01
151600[redacted]	[redacted] OF	54,544.31	107/05/31	107/05/31	211.94
151600[redacted]	[redacted] OF	340,948.53	107/05/31	107/05/31	1,483.62
251600[redacted]	[redacted] OF	.00			.00
251600[redacted]	[redacted] OF	.00			.00
7139[redacted]	[redacted] DISTRICT	64.00	107/05/31	107/05/31	.27
251600[redacted]	[redacted] DISTRICT	100,556.68	107/05/31	107/05/31	442.55
151600[redacted]	[redacted] SHIP	103,078.88	107/05/31	107/05/31	442.84
251600[redacted]	[redacted] SHIP	103,050.06	107/05/31	107/05/31	453.52
251600[redacted]	[redacted] ON PUB LIBRARY	311,393.83	107/05/31	107/05/31	1,384.57
7139[redacted]	[redacted] RANGE TOW	730,110.33	107/05/31	107/05/31	2,903.05
	TOTAL	6844338523.69			169,343,729.92 7,255

OF REPORT XR56872

End of Month

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[redacted]60000[redacted]	22	[redacted]ER FIRE PROT	66,946.61	107/05/31	66,651.98
[redacted]60000[redacted]	22	[redacted]ER FIRE PROT	29,215.61	107/05/31	29,087.04
[redacted]60000[redacted]	36	[redacted] CCSD 157C	329,631.66	107/05/31	328,180.95
[redacted]60000[redacted]	14	[redacted] COUNTY SWCD	67,501.92	107/05/31	67,204.85
[redacted]60000[redacted]	03	[redacted]LLAGE OF	.00		.00
[redacted]60000[redacted]	24	[redacted] TELEPHONE SYSTE	1,865,520.40	107/05/31	1,786,496.37

1XR55413 COM[redacted] 00945 PROC GRP THE ILLINOIS FUNDS RUN DATE 107/06/01 07:02 PA

AVERAGE BALANCE REPORT EFF DATE 107/05/31

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ACCOUNT NUMBER	FUNDS OWNER	ACCOUNT NAME	MONTH END BALANCE	LAST ACTIVITY	AVERAGE BALANCE
25160000[redacted]	03	[redacted]AGE OF	5,288.09	107/05/31	5,264.82
25160000[redacted]	03	[redacted]OF	202,705.08	107/05/31	201,812.98
25160000[redacted]	07	[redacted] TREASURER	2,207,918.26	107/05/31	2,198,201.19
25160000[redacted]	36	[redacted]SD	2,621,616.92	107/05/31	2,610,079.16
25160000[redacted]	36	[redacted]SD 181	1,013,658.08	107/05/31	1,009,196.96
25160000[redacted]	36	[redacted]SD 181	1,010,627.51	107/05/31	1,006,179.73
2516000[redacted]	03	[redacted] VLG OF	506,616.64	107/05/31	504,387.02
2516000[redacted]	36	[redacted]CD #49	1,117,610.62	107/05/31	1,007,672.39
2516000[redacted]	13	[redacted]ISTRICT	100,556.68	107/05/31	100,114.13
2516000[redacted]	03	[redacted]HEIGHTS VILLAG	.00		.00
2516000[redacted]	03	[redacted]CITY OF	518,564.82	107/05/31	517,865.95
2516000[redacted]	03	[redacted]LG OF	250,488.48	107/05/31	249,386.08
2516000[redacted]	52	[redacted] HILLS SANITAR	.00		.00
2516000[redacted]	03	[redacted]EW VILLAGE OF	643.38	107/05/31	520.43
2516000[redacted]	03	[redacted]EW VILLAGE OF	1,218.72	107/05/31	840.80
2516000[redacted]	03	[redacted]CITY OF	18,903.05	107/05/31	18,802.82
2516000[redacted]	35	[redacted]IB DIST	42,224.02	107/05/31	42,038.20
2516000[redacted]	35	[redacted]REST VIEW PLD	300,984.54	107/05/31	222,580.64
2516000[redacted]	03	[redacted]CITY OF	13,190.83	107/05/31	13,132.78
2516000[redacted]	03	[redacted]OF	261,344.99	107/05/31	260,194.81
2516000[redacted]	36	[redacted] CUSD 100	.00		.00
2516000[redacted]	03	[redacted]IGHTS VLG OF	1,470,698.33	107/05/31	1,464,225.78
2516000[redacted]	13	[redacted]ARK PARK DIST	12,664.12	107/05/31	12,608.39
2516000[redacted]	05	[redacted]P	.00		.00
2516000[redacted]	38	[redacted] ASSN FOR SPEC	.00		.00
2516000[redacted]	35	[redacted]D	.00		.00
2516000[redacted]	03	[redacted] CITY OF	.00		.00
2516000[redacted]	37	[redacted]IL LIB SYSTEM	2,369,425.90	107/05/31	2,202,666.66
2516000[redacted]	22	[redacted]CO FPD	100,087.66	107/05/31	42,876.30
2516000[redacted]	03	[redacted]TY OF	1,503,002.04	107/05/31	1,166,666.66
2516000[redacted]	03	[redacted]RBOR VILLAGE	.00		.00
2516000[redacted]	03	[redacted]TY OF	.00		.00
2516000[redacted]	03	[redacted]CITY OF	7,272.62	107/05/31	3,845.26
2516000[redacted]	35	[redacted]UBLIC LIBRARY	.00		.00
2516000[redacted]	22	[redacted]ION 12	.00		.00
TOTALS:		7,257	7,348,014,164.96		6,841,289,416.74

0END OF REPORT XR55413

the ILLINOIS FUNDS
Money Market
DAILY CASH POSITION - NET CASH INFLOW/OUTFLOW
June 7, 2007

Prior to 11:00 a.m. activity

ACH NET DEBIT TOTAL*	(-)	$7,921,632.21
ACH NET CREDIT TOTAL*	(+)	$43,236,346.75
CASH LETTER INCLEARINGS*	(-)	$5,360,780.42
MANUAL CHECKING DEPOSITS	(+)	$560,066.90
INCOMING WIRE TRANSFERS	(+)	$23,412,192.19
OUTGOING WIRE TRANSFERS*	(-)	$30,615,217.26
PREVIOUS DAY DEBIT TO PARTICIPANT	(-)	$869,424.12
PREVIOUS DAY CREDIT TO PARTICIPANT	(+)	$0.00
PRIME FUND REDEMPTION-PFREDM	(-)	$5,507,065.84
MONEY MARKET TRANSFER TO PRIME FUND	(-)	$2,505,000.39
PRIME FUND TRANSFER TO MONEY MARKET	(+)	$0.00

*10:00 Report	NET POOL CHANGE @ 11	$14,429,485.60
	SECURITY GAIN	$0.00
	CUSTODIAN & MGMT FE	$0.00
	FINAL NET POOL CHANG	$14,429,485.60
	STATE WARRANT WIRE	$16,430,518.76
	EFT TOTAL	$286,377,270.04

the ILLINOIS FUNDS

Prime Fund

DAILY CASH POSITION - NET CASH INFLOW/OUTFLOW

June 7, 2007

Prior to 11:00 a.m. activity		V
ACH NET DEBIT TOTAL*	(-)	$28,415.33
ACH NET CREDIT TOTAL*	(+)	$1,214,432.52
MANUAL CHECKING DEPOSITS	(+)	$10,345.62
INCOMING WIRE TRANSFERS	(+)	$0.00
OUTGOING WIRE TRANSFERS*	(-)	$0.00
PRIME FUND TRANSFER TO MONEY MARKET	(-)	$0.00
MONEY MARKET TRANSFER TO PRIME FUND	(+)	$2,505,000.39
*10:00 Report	NET POOL CHANGE @ 11:00a.m.	$3,701,363.20
	FEE ADJUST MONEY MKT	$0.00
	CUSTODIAN & MGMT FEE PAID	$0.00
	FINAL NET POOL CHANGE	$3,701,363.20

ILLINOIS FUNDS

MONTHLY RATE HISTORY
MONEY MARKET

Date	Annualized Rate	Daily Factor
01-May-07	4.966%	0.000136054000
02-May-07	5.055%	0.000138504400
03-May-07	5.084%	0.000139296600
04-May-07	5.085%	0.000139322700
05-May-07	5.085%	0.000139322700
06-May-07	5.085%	0.000139322700
07-May-07	5.076%	0.000139067300
08-May-07	5.078%	0.000139126700
09-May-07	5.054%	0.000138473000
10-May-07	5.051%	0.000138390500
11-May-07	5.056%	0.000138521100
12-May-07	5.056%	0.000138521100
13-May-07	5.056%	0.000138521100
14-May-07	5.088%	0.000139406900
15-May-07	5.137%	0.000140742700
16-May-07	5.081%	0.000139195000
17-May-07	5.089%	0.000139422000
18-May-07	5.099%	0.000139698000
19-May-07	5.099%	0.000139698000
20-May-07	5.099%	0.000139698000
21-May-07	5.100%	0.000139737100
22-May-07	5.105%	0.000139855400
23-May-07	5.092%	0.000139501800
24-May-07	5.094%	0.000139568600
25-May-07	5.094%	0.000139570900
26-May-07	5.094%	0.000139570900
27-May-07	5.094%	0.000139570900
28-May-07	5.094%	0.000139570900
29-May-07	5.114%	0.000140096400
30-May-07	5.087%	0.000139364300
31-May-07	5.040%	0.000138079700

Average	5.080%

ILLINOIS FUNDS

MONTHLY RATE HISTORY
PRIME RATE

Date	Annualized Rate	Daily Factor
01-May-07	5.179%	0.000141899000
02-May-07	5.185%	0.000142066700
03-May-07	5.201%	0.000142488000
04-May-07	5.202%	0.000142513100
05-May-07	5.202%	0.000142513100
06-May-07	5.202%	0.000142513000
07-May-07	5.201%	0.000142503500
08-May-07	5.189%	0.000142155500
09-May-07	5.178%	0.000141856500
10-May-07	5.170%	0.000141640800
11-May-07	5.173%	0.000141720100
12-May-07	5.173%	0.000141720100
13-May-07	5.173%	0.000141720100
14-May-07	5.200%	0.000142456400
15-May-07	5.240%	0.000143550200
16-May-07	5.207%	0.000142668300
17-May-07	5.213%	0.000142824100
18-May-07	5.216%	0.000142907400
19-May-07	5.216%	0.000142907400
20-May-07	5.216%	0.000142907400
21-May-07	5.220%	0.000143002600
22-May-07	5.218%	0.000142957400
23-May-07	5.211%	0.000142769800
24-May-07	5.212%	0.000142804600
25-May-07	5.220%	0.000143020200
26-May-07	5.220%	0.000143020200
27-May-07	5.220%	0.000143020200
28-May-07	5.220%	0.000143020200
29-May-07	5.237%	0.000143477800
30-May-07	5.236%	0.000143450500
31-May-07	5.197%	0.000142374900

Average	5.205%

OBP CODE	ACT NBR CST CTR	SP CD	DATE OPEN ACCT NAME	CURRENT BALANCE	OD LINE AMOUNT PRJ CHG OFF DATE	LAST DEPOSIT	DATE OD LTR PTP	CONS DAYS OD	NSF ITEMS	AMOUNT NSF	6 MTH HISTORY TIMES OD	OD ITEMS	RTN ITEMS
01	0001516001[redacted]	45	04/23/07	.20-	.00		06/04/07	2	000	.00	0	0	0
	2539804		[redacted] LIBRARY										

TOTAL OD ACCOUNTS FOR OBP CODE 01 1

TOTAL OD ACCOUNTS FOR OFFICER 99999 1

CR0021 COMPANY 00945 PROC GRP ID01 | THE ILLINOIS FUNDS | RUN DATE 107/06/06 05:19 | PAGE 1

COST CENTER2539804 BRANCH 9804 | LARGE ITEMS REPORT | EFF DATE 107/06/05

ACCOUNT NUMBER	PC	SUB PC	SHORT NAME	TRAN CODE	TRANSACTION AMOUNT	TRACE ID
0000071391[redacted]	DDA	45	[redacted] CITY OF	1009	6,000,000.00	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] VILLAGE	1009	4,651,383.87	WIRE XFER
0000071391[redacted]	DDA	45	[redacted]	1009	1,163,458.69	WIRE XFER
0000071391[redacted]	DDA	45	[redacted]	1057	1,441,341.98	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] ELECTRIC	1009	5,223,541.74	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] ELECTRIC	1057	2,661,861.46	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] UNIVERS	1009	4,792,772.00	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] UNIVERS	1063	5,077,023.44	I-GEN107060500000001
0000071391[redacted]	DDA	45	[redacted] OF	1055	6,175,000.00	20071555164732 N
0000071391[redacted]	DDA	45	[redacted]	1009	11,206,122.09	WIRE XFER
0000071391[redacted]	DDA	45	[redacted]	1057	1,570,875.33	WIRE XFER
0000071391[redacted]	DDA	45	[redacted]	1057	6,269,051.34	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] S	1057	3,500,000.00	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] PUBLIC	5793	1,809,399.42	20071560891624 Y
0000071391[redacted]	DDA	45	[redacted] PUBLIC	5797	1,809,399.42	20071560891625 Y
0000071391[redacted]	DDA	45	[redacted]	1057	1,600,000.00	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] ASSISTA	1009	4,374,007.39	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] OF	1007	3,217,587.00	20071555164730 N
0000071391[redacted]	DDA	45	[redacted] OF	1055	10,793,597.63	20071555164733 N
0000071391[redacted]	DDA	45	[redacted]	1009	5,483,192.63	WIRE XFER
0000071391[redacted]	DDA	45	[redacted]	1057	5,246,810.96	WIRE XFER
0000071391[redacted]	DDA	45	[redacted] TREASURER	1057	3,130,000.00	WIRE XFER
0001516000[redacted]	DDA	45	[redacted] SONSERV DI	1055	1,202,776.00	20071560975424 N
0001516000[redacted]	DDA	45	[redacted] SOUTHER	1013	5,077,023.44	I-GEN107060500007394

ACCOUNTS IN BRANCH 24

us bank
Five Star Service Guaranteed

Main Office
205 S Fifth Street
PO Box 79264
Springfield, IL 62794-9264
217 753-7530
217 753-7558 fax

May 1, 2007

Mr. Randy Coffey
Illinois Funds
State Treasurer's Office
300 W. Jefferson
Springfield, IL 62702

Dear Randy,

The following information is the Illinois Funds Money Market Fund locally held funds report as of April 30, 2007:

Investment Income less Management Fees April-07	$22,973,880.52
Investment Income Cash Basis Fiscal YTD	$223,505,876.30
Investment Income Fiscal YTD	$220,309,309.82
Local Illinois Government Units Fiscal YTD subscriptions	$14,181,580,316.62
Awards of Grants Fiscal YTD redemptions	$13,730,207,282.59

If you have any questions, please call me at 753-7442.

Sincerely,

Debra L. Payne

Debra L. Payne
Illinois Funds Manager

The Illinois Funds
Money Market Fund

April 30, 2007

Financial Report

Assets

Investment in Securities - Cost Basis		5,525,316,519.04	
Accumulated Accretion of Premium		0.00	
Interest Receivable		3,291,548.76	
	Total Assets		$5,528,608,067.80

Liabilities

Accrued Management Fees Payable		$418,740.95	
Accrued Dividends Payable		22,965,472.75	
	Total Liabilities		$23,384,213.70
	Net Assets		$5,505,223,854.10

Fund Activity

	Month	Fiscal Year to Date
Beginning Balance	5,178,957,975.00	4,844,641,681.56
Subscriptions	1,591,373,369.74	14,181,580,316.62
Reinvestments	22,934,786.13	213,156,356.68
Redemptions	(1,287,625,254.55)	(13,730,207,282.59)
Management Fee	(417,022.22)	(3,947,218.17)
Ending Balance	5,505,223,854.10	5,505,223,854.10

Month-End Fund Statistics

Units Outstanding (Before Reinvestment)	$5,505,223,854.10
Net Asset Value Per Share	1.00
7-Day Net Yield	5.105%
Monthly Average Yield	5.160%
Average Weighted Maturity	2 Days

usbank
Five Star Service Guaranteed

Main Office
205 S Fifth Street
PO Box 79264
Springfield, IL 62794-9264
217 753-7530
217 753-7558 fax

May 1, 2007

Mr. Randy Coffey
Illinois Funds
State Treasurer's Office
300 W. Jefferson
Springfield, IL 62702

Dear Randy,

The following information is the Illinois Funds Prime Fund locally held funds report as of April 30, 2007:

Investment Income less Management Fees April-07	$4,693,621.24
Investment Income Cash Basis Fiscal YTD	$44,961,861.60
Investment Income Fiscal YTD	$44,215,113.97
Local Illinois Government Units Fiscal YTD subscriptions	$546,017,162.99
Awards of Grants Fiscal YTD redemptions	$376,432,034.21

If you have any questions, please call me at 753-7442.

Sincerely,

Debra L. Payne

Debra L. Payne
Illinois Funds Manager

The Illinois Funds
Prime Fund

April 30, 2007

Financial Report

Assets

Investment in Securities - Cost Basis		1,066,345,089.10	
Accumulated Accretion of Premium		173,036.11	
Interest Receivable		419,401.02	
	Total Assets		$1,066,937,526.23

Liabilities

Accrued Management Fees Payable		$89,101.39	
Accrued Dividends Payable		4,694,944.65	
	Total Liabilities		$4,784,046.04
	Net Assets		$1,062,153,480.19

Fund Activity

	Month	Fiscal Year to Date
Beginning Balance	1,085,510,483.74	851,306,522.98
Subscriptions	21,880,677.68	546,017,162.99
Reinvestments	4,712,824.48	42,076,871.51
Redemptions	(49,860,843.13)	(376,432,034.21)
Management Fee	(89,662.58)	(815,043.08)
Ending Balance	1,062,153,480.19	1,062,153,480.19

Month-End Fund Statistics

Units Outstanding (Before Reinvestment)	1,062,153,480.19
Net Asset Value Per Share	1.00
7-Day Net Yield	5.207%
Monthly Average Yield	5.233%
Average Weighted Maturity	9 Days

	Ticket #: TMS-0724	Created By: Teresa M Santarelli/IL/USB Date of Call: 06/01/2007 01:00 PM
		Edited By: Edited Date:

Effective Date: 06/01/2007

Participant Name: city of [redacted]

Caller Phone:

Caller Name: mary

Account Number: 713[redacted]

Fund Type: Money Market

Call Category: Errors - Encoding

Type of Call: ○ Inquiry ● Error ○ Transaction

Short Description: deposit for $276.25 was encoded for $267.25. credited account $9.00

Call History:

Assigned To: Teresa M Santarelli/IL/USB
Call Status: Open

Call Closed:

Closed By:

ACCOUNT NUMBER	P C	SUB PC NAME AND ADDRESS	OFFICER 1/2	OPEN DATE	REOPEN DATE	TRANSFER BALANCE	OBP CODE	FROM SPC	OPEN REASON
TAX ID	WM/EC								
000[redacted]	DDA	45[redacted]T PRESERVE DISTRIC [redacted]AC [redacted]	99999 99999	06/04/07	√		01		OPENED
366006585	PY	[redacted]							

**TOTAL-BRANCH 9804 CURRENCY

	DDA	LOC	DC	DDA AMOUNT	LOC AMOUNT
***** NUMBER OF NEW ACCOUNTS	1	0	0		
***** NUMBER OF REOPENED ACCOUNTS	0	0	0		
***** NUMBER OF TRANSFERS	0	0	0	.00	.00

CR0011 COMPANY 00945 PROC GRP THE ILLINOIS FUNDS RUN DATE 107/06/05 04:42 PAGE 1
BRANCH 9804 CLOSED ACCOUNT REPORT EFF DATE 107/06/04

ACCOUNT NUMBER	P C	SUB PC	NAME AND ADDRESS	CLOSE DATE	BAL BEFORE CLOSING	OFFICER	ACCOUNT RESTRAINTS	CLS RSN	OD LTR	RCR LTR
000[redacted]	DDA	RD	[redacted] SCHOOL TREASURER [redacted]	06/04/07	6,758.69	09804		PO		

BRANCH ***** NUMBER CLOSED ACCOUNTS 1
REPORT ***** TOTAL CLOSED ACCOUNTS 1

END OF REPORT CR0011

(No. S-589—May 22, 1973)

CONSTITUTION—*Finance.* A proposed agreement whereby the Illinois Racing Board would indemnify the Illinois Bureau of Race Track Police, Inc., a not-for-profit organization, against future liabilities and purchase the bureau's accounts, is an unconstitutional extension of public credit for private purpose.

HORSE RACING—*Illinois Racing Board.* The Illinois Racing Board may not indemnify the Illinois Bureau of Race Track Police, Inc. for future liabilities which may arise or become due subsequent to the bureau's dissolution as a not-for-profit corporation.

CONSTITUTION CONSTRUED—Illinois Constitution of 1970, article VII, sections 1(a) and 1(b).

Anthony Scariano, Chairman, Illinois Racing Board, Room 1000, State of Illinois Building, 160 North LaSalle Street, Chicago, Illinois.

I have your letter pertaining to the proposed dissolution of the Illinois Bureau of Race Track Police, Incorporated, an Illinois not-for-profit corporation [hereinafter referred to as Bureau]. In your letter you state, in part, as follows:

"Over the past years, the Bureau has performed three functions:
1. Provided security at race tracks.
2. Provided the services of horse identifiers.
3. Operated the laboratory which conducts urine and saliva tests of horses.

Representatives of the Illinois Racing Board have served on the Bureau's Board of Directors. Last summer, legislation was enacted which provides that security functions will be taken over by race tracks themselves and that investigative services at the tracks will be provided by the Illinois Bureau of Investigation. In view of this legislation, last year the Racing Board decided that the Bureau should be dissolved and that the functions of providing horse identifier services and operating the laboratory should be transferred to the Racing Board. It is our understanding that those assets of the Bureau which dealt with security functions have already been transferred to the Department of Law Enforcement. As of January 15, 1973, the Racing Board has taken over the functions of providing horse identifiers and operating the laboratory; the personnel performing those functions are now on the racing Board payroll.

The Bureau, itself, has not yet been dissolved. It is our understanding that the Board of Directors of the Bureau has been considering making provisions for the Bureau's liability during the period following the Bureau's dissolution. Apparently, there are several pieces of litigation currently pending against the Bureau. We have been informed that the Board of Directors of the Bureau proposes to place a certain amount of funds into an escrow account to provide for these potential liabilities.

When the Bureau is dissolved, all of the assets of the Bureau, which consist primarily of accounts receivable and the laboratory equipment, will be acquired by the Racing Board. We respectfully request an opinion from your office as to whether, upon acquiring these assets, the Racing Board has the power to indemnify the Bureau from any future liabilities. Such indemnification would alleviate the necessity of putting any funds into an escrow account. These funds, as assets of the Bureau, would then also be acquired by the Racing Board and would be paid into the General Revenue Fund."

It is my opinion that the Racing Board cannot enter into such an indemnification agreement nor can it purchase the accounts of the Illinois Bureau of Race Track Police, Incorporated, a not-for-profit corporation, as referred to in your letter.

Section 1(a) and (b) of article VIII of the Illinois Constitution of 1970 provide as follows:

"(a) Public funds, property or credit shall be used only for public purposes.
(b) The State, units of local government and school districts shall incur obligations for payment or make payments from public funds only as authorized by law or ordinance."

Section 1(a) and (b) of article VIII originated as section 1 of Proposal No. 1 of the Committee on Revenue and Finance of the Sixth Illinois Constitutional Convention. (VII, 6th Ill. Const. Con., Comm. Proposals, pp. 2009-2010 (1972).) Section 1 was approved by the convention without amendment. (II, 6th Ill. Const. Con., Verbatim Transcript, p. 899 (1972).) Thus, the changes made in the language of section 1 of Proposal No. 1 were stylistic rather than substantive.

It should be noted that the first paragraph of section 1 of Proposal No. 1 evolved into section 1(a) of article VIII while the second and final paragraph evolved into section 1(b) of article VIII. Section 1(c) of article VIII stemmed from section 2 of Proposal No. 1.

The Committee on Revenue and Finance explained its proposed section 1 as follows:

"*Explanation*

The first sentence limits the use of public funds, property and credit to a public purpose. It permits the state and its political subdivisions to enter into financial arrangements with governmental or non-governmental organizations whenever a public purpose will be served thereby. In this context, a public purpose is served whenever the appropriation is to be used for governmental purposes and a non-governmental organization is essentially a conduit or agent of the state in implementing its governmental purposes.

The second sentence assigns control over the authority to obligate and disburse public funds to the legislative bodies of state and local government and permits them to delegate such authority only by the enactment of laws.

Present Provisions and Reasons for Change

Article IV, Section 20, of the present constitution prohibits the state from assuming the debts of or loaning credit to any public or private corporation or individual. Illinois courts have rarely utilized this section to prevent state financial aid to private persons or institutions. *Schuler* v. *Board of Education*, 370 Ill. 107 (1938). Instead, the courts have developed the public purpose doctrine to determine whether a given transaction accomplishes a proper governmental function. *People ex rel Douglas* v. *Barrett*, 370 Ill. 464 (1939); *Cremer* v. *Peoria Housing Authority*, 399 Ill. 579 (1948). The proposed language removes the prohibition against assuming debts or loaning credit and substitutes the public purpose test. It also specifically applies the public purpose test to expenditures of local governments.

The second sentence of proposed Section 1 is similar to the provision in present Section 19 of Article IV, which requires that agents of government have express authority to bind the government. While this language may appear to state the obvious, the traditional separation of powers doctrine makes it important to specify which branch of government—in this case the legislature—has the sole authority to obligate or expend funds. The judicial and executive branches may make decisions which affect expenditure of funds, but they do not have the power to authorize the expenditure."

(VII, 6th Ill. Const. Con., Comm. Proposals, pp. 2009, 2011 (1972).)

In your letter, you point out that the Bureau is contemplating dissolution. You ask whether the Illinois Racing Board [hereinafter referred to as Board] may acquire the assets of the Bureau, which consists mainly of accounts receivable and laboratory equipment. As consideration for the assets of the Bureau, the Board wishes to indemnify the Bureau from any future liabilities; thus the Bureau will not have to maintain an escrow fund to pay off such future liabilities as may accrue.

I am of the opinion that such an indemnification plan would be in violation of both section 1(a) and (b) of article VIII of the Illinois Constitution of 1970.

It should be kept in mind that section 1(a) of article VIII stemmed from section 20 of article IV of the Illinois Constitution of 1870. Section 19 of article IV of the Illinois Constitution of 1870 was basically the constitutional predecessor to section 1(b) of article VIII. The cases interpreting these sections of the Constitution of 1870 will be relied upon in attempting to clarify my holding that your proposed indemnity plan violates both sections 1(a) and (b) of article VIII.

An agreement by the Board to indemnify the Bureau would constitute an extension of the public credit. In *Continental Natl. Bank* v. *Ill. State Toll Highway Comm.*, 42 Ill. 2d 385, the Illinois Supreme Court discussed the object and purpose of section 20 of article IV of the Illinois Constitution of 1870. At page 403, the court states:

> "* * * [T]he purpose of the provision, which is complementary to section 18 of article IV, is to prohibit the State from contracting debts as a guarantor or surety so as to protect the State from incurring an excessive public indebtedness. (See *Hagler* v. *Small*, 307 Ill. 460, 467, 473; *Fairbank* v. *Stratton*, 14 Ill. 2d 307, 315.) * * *"

Thus, an agreement by the State to be a surety or guarantor would be an extension of the public credit.

In a guaranty contract, the guarantor promises the creditor to pay the debt, if and when the debtor fails to make good his promise to pay. (*Thomas* v. *Williams*, 173 Okla. 601, 49 P. 2d 557; *Olson* v. *Smith*, 72 S.W. 2d 650, (Tex. Civ. App.).) In a suretyship contract, again the promise runs from the surety to the creditor. *Maine Lbr. Co.* v. *Maryland Casualty Co.*, 214 N.Y.S. 621, 216 App. Div. 35; *New Amsterdam Casualty Co.* v. *Waller*, 233 N.C. 536, 64 S.E. 2d 826.

In an indemnity contract, the indemnitor agrees to save the debtor harmless from loss or liability. (*Erickson* v. *Fitzgerald*, 342 Ill. App. 223; *Maine Lbr. Co.* v. *Maryland Casualty Co.*, 214 N.Y.S. 621, 216 App. Div. 35; *New Amsterdam Casualty Co.* v. *Waller*, 233 N.C. 536, 64 S.E. 2d 826.) Thus, in an indemnity contract the promise runs to the debtor whereas in a surety contract or guaranty contract the promise runs to the creditor.

In *Continental Natl. Bank* v. *Ill. State Toll Highway Comm.*, 42 Ill. 2d 385, the Illinois Supreme Court held that where the State undertakes to contract debts as a guarantor or surety the public credit is involved. I am of the opinion that an indemnity contract extends the public credit as well. The key is that in an indemnity contract, as well as in a surety or guaranty contract, public funds may at some time in the future be expended.

Section 1(b) of article VIII prohibits the incurring of an obligation except as provided by law. The General Assembly controls the obligation of public funds but it may delegate this authority. Thus, before the Board may enter into an indemnity contract such as is contemplated in your letter, the Board must have the statutory authority to enter into such a contract.

The Illinois Court of Claims in construing section 19 of article IV of the Illinois Constitution of 1870 has held that the State may not enter into an agreement to indemnify a railroad where no express authority to make the indemnity contract exists. *Illinois Central R.R. Co.* v. *State of Illinois*, 21 Court of Claims Rep., 25.

I am of the opinion that the Board has not been authorized by the legislature to enter into the proposed indemnity agreement. Therefore, said agreement if entered into would be illegal and void.

Furthermore, the General Assembly appropriates to the Board a certain amount of money each fiscal year. Obviously, the Board does not have the power to expend more than has been appropriated to the Board. The authority of a State agency to incur obligations, even though within the general scope of the functions imposed upon it by law, is, by and large, limited to the amount of the existing appropriations made to that agency; and, generally, if the appropriations are insufficient to meet the obligations incurred, the contract creating the obligation is void as being made without express authority of law. (*Fergus* v. *Brady*, 277 Ill. 272.) Here, the Board is both proposing to enter into an indemnity contract that it does not have the authority to make; and that contract would be open-ended so as to make the State responsible for payment of an unknown amount of money that could exceed the appropriation granted to the Board.

The proposed plan whereby the Board would purchase the Bureau's assets, including the accounts receivable, in return for the Board agreeing to indemnify the Bureau, is in violation of section 1(a) of article VIII. The proposed agreement as pointed out earlier would constitute a use of public credit but it would not be for a public purpose.

The Illinois Supreme Court has held on a number of occasions that if the principal purpose and objective of an enactment is public in nature, it does not matter that there will be an incidental benefit to private interests. (*People ex rel. Adamowski* v. *Chicago R.R. Terminal Authority*, 14 Ill. 2d 230, 236; *People ex rel. Gutknecht* v. *City of Chicago*, 414 Ill. 600, 611; *Poole* v. *City of Kankakee*, 406 Ill. 521, 530; *Cremer v. Peoria Housing Authority*, 399 Ill. 579, 591-592.) There is no legislation authorizing the Board to extend the credit of the State by way of an indemnity contract when the major purpose of the extension of the credit of the State is to benefit a private not-for-profit corporation. The Board receives only the incidental benefit of obtaining laboratory equipment that it can use to carry out its statutory duties. Apparently, however, this equipment is not so unique that it must be obtained from the Bureau. Even if it were unique, it could be obtained by financial arrangements other than the proposed indemnity agreement. Clearly, the purpose of the indemnity agreement is to benefit the Bureau rather than the public. By this method, the Bureau will be free of collecting its accounts receivable and will not have to maintain an escrow fund to pay off future liabilities.

You have also noted that the Board intends to purchase the accounts receivable of the Bureau. Even apart from the proposed indemnity plan such a proposal would be illegal.

It is a well established principle that an administrative agency derives its powers and authority only from the statute creating it and it, therefore, has only the authority which is expressly conferred upon it. (*People ex rel. Polen* v. *Hoehler*, 405 Ill. 322; 1 I.L.P., Administrative Law and Procedure, sec. 21, p. 452 (1953).) However, an express grant of power to do a particular thing includes the grant of power to do all that is reasonably necessary to execute the power or duty. *Townsen* v. *Cash*, 267 Ill. 578.

The Illinois Racing Board does not have the statutory authority to purchase the accounts receivable of a private corporation. Clearly, such a purchase could not aid the Board in the execution of its powers and duties.

Therefore, I am of the opinion that the Illinois Racing Board may not indemnify the Illinois Bureau of Race Track Police, Incorporated, as to the future liabilities that may arise or become due subsequent to the Bureau's dissolution as a not-for-profit corporation.